

## OFFICIAL STATEMENT

April 15, 2019

*In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)*

**The Issuer has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.**

\$9,015,000

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
(A political subdivision of the State of Texas located in Orange County, Texas)  
Unlimited Tax Refunding Bonds, Series 2019**

Dated Date: May 15, 2019

Due: February 15, as shown on inside cover

The \$9,015,000 Orange County Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"), are being issued pursuant to the laws of the State of Texas (the "State"), including Chapters 49 and 51, as amended, Texas Water Code, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Article XVI, Section 59 Texas Constitution, and an order (the "Order") adopted by the Board of Directors of the Orange County Water Control and Improvement District No. 1 (the "District" or the "Issuer") on April 15, 2019. (See "THE BONDS – Authority for Issuance" herein.)

The Bonds are payable from an annual ad valorem tax levied, without legal limit as to rate or amount on all taxable property located within the District. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

Interest on the Bonds will accrue from May 15, 2019 (the "Dated Date") and is payable initially on February 15, 2020 and each August 15 and February 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as Cede & Co., as the paying agent to DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial Paying Agent/Registrar for the Bonds shall be UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar").

Proceeds from the sale of the Bonds will be used for the purpose of (1) providing funds to refund certain of the District's currently outstanding obligations, as identified in Schedule I attached hereto, for debt service savings, and (2) paying the costs and expenses incurred in connection with issuance the Bonds. (See "THE BONDS – Use of Bond Proceeds" herein.)



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **Assured Guaranty Municipal Corp.** (see "BOND INSURANCE" herein)

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SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS,  
INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS AND REDEMPTION PROVISIONS FOR THE BONDS

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The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of the State and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. Certain legal matters will be passed upon by their counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds will be available for initial delivery through DTC on or about May 21, 2019.

\$9,015,000  
**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**(A political subdivision of the State of Texas located in Orange County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2019**

CUSIP Prefix No. 684728<sup>(1)</sup>

**MATURITY SCHEDULE**

| <b>Stated</b>      |                      |                    |                     | <b>CUSIP</b>                        | <b>Stated</b>      |                      |                    |                       | <b>CUSIP</b>                        |
|--------------------|----------------------|--------------------|---------------------|-------------------------------------|--------------------|----------------------|--------------------|-----------------------|-------------------------------------|
| <b>Maturity</b>    | <b>Principal</b>     | <b>Interest</b>    | <b>Initial</b>      | <b>No.</b>                          | <b>Maturity</b>    | <b>Principal</b>     | <b>Interest</b>    | <b>Initial</b>        | <b>No.</b>                          |
| <b><u>2/15</u></b> | <b><u>Amount</u></b> | <b><u>Rate</u></b> | <b><u>Yield</u></b> | <b><u>Suffix</u></b> <sup>(1)</sup> | <b><u>2/15</u></b> | <b><u>Amount</u></b> | <b><u>Rate</u></b> | <b><u>Yield</u></b>   | <b><u>Suffix</u></b> <sup>(1)</sup> |
| 2020               | \$ 115,000           | 2.000%             | 1.800%              | KJ6                                 | 2026               | \$ 940,000           | 4.000%             | 2.250%                | KQ0                                 |
| 2021               | 55,000               | 3.000%             | 1.850%              | KK3                                 | 2027               | 985,000              | 4.000%             | 2.330%                | KR8                                 |
| 2022               | 640,000              | 3.000%             | 2.000%              | KL1                                 | 2028               | 1,020,000            | 4.000%             | 2.390%                | KS6                                 |
| 2023               | 740,000              | 4.000%             | 2.050%              | KM9                                 | 2029               | 1,060,000            | 4.000%             | 2.430%                | KT4                                 |
| 2024               | 780,000              | 4.000%             | 2.110%              | KN7                                 | 2030               | 925,000              | 4.000%             | 2.540% <sup>(2)</sup> | KU1                                 |
| 2025               | 790,000              | 4.000%             | 2.200%              | KP2                                 | 2031               | 965,000              | 4.000%             | 2.650% <sup>(2)</sup> | KV9                                 |

**(Interest to accrue from the Dated Date)**

The Issuer reserves the right to redeem the Bonds maturing on or after February 15, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 15, 2029, or any date thereafter, at the redemption price of par plus accrued interest as further described herein (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owner of the Bonds. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwrites are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2029, the first optional call date for the Bonds at a price of par plus accrued interest to the date of redemption.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix E - Specimen Municipal Bond Insurance Policy".

*[The remainder of this page intentionally left blank]*

**ELECTED AND APPOINTED OFFICIALS**

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

460 E. Bolivar Street  
Vidor, Texas 77662

**BOARD OF DIRECTORS**

| Name                          | Years Served | Term Expires (May) | Occupation                        |
|-------------------------------|--------------|--------------------|-----------------------------------|
| Robert Viator<br>President    | 17           | 2022               | Real Estate Investments           |
| Frank Inzer<br>Vice President | 7            | 2020               | Real Estate Investments           |
| Tim Beard<br>Secretary        | 9            | 2022               | Development Specialist            |
| Trey Haney<br>Director        | 5            | 2022               | Manager – Pharmaceutical Industry |
| Guy Grovers<br>Director       | 5            | 2020               | Computer Technician               |

**ADMINISTRATIVE OFFICIALS**

| Name            | Position               | Length of Service (Years) |
|-----------------|------------------------|---------------------------|
| Norman Blackman | General Manager        | 6                         |
| Chris Serres    | Finance/Office Manager | 10                        |
| David LeJune    | Operations Manager     | 38                        |

**CONSULTANTS AND ADVISORS**

Bond Counsel ..... Norton Rose Fulbright US LLP  
San Antonio, Texas

Certified Public Accountant..... Wathen, DeShong & Juncker, L.L.P.  
Beaumont, Texas

Financial Advisor .....SAMCO Capital Markets, Inc.  
San Antonio, Texas

*For Additional Information Please Contact*

Mr. Norman Blackman  
General Manager  
Ms. Chris Serres  
Finance/Office Manager  
Orange County Water Control and Improvement District No. 1  
460 E. Bolivar Street  
Vidor, Texas 77662  
Telephone: (409) 769-2669  
nblackman@ocwc1.com  
cserres@ocwc1.com

Mr. Mark McLiney  
Mr. Andrew Friedman  
SAMCO Capital Markets, Inc.  
1020 NE Loop 410, Suite 640  
San Antonio, Texas 78209  
Telephone: (210) 832-9760  
Facsimile: (210) 832-9794  
mmcliney@samcocapital.com  
afriedman@samcocapital.com

## USE OF INFORMATION IN THE PRELIMINARY OFFICIAL STATEMENT

The information set forth or included in this Official Statement has been provided by the District and from other sources believed by the District and the Underwriters to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer described herein since the date hereof. The Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Issuer's undertaking to provide certain information on a continuing basis.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the District and as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the District, its Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its book-entry-only system, or the bond insurer, if any, and its municipal bond insurance policy described herein under the heading "BOND INSURANCE", as such information has been provided by DTC and the bond insurer, respectively.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the Underwriters. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the adequacy or accuracy of this document and any representation to the contrary is a criminal offense.

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE UNDERWRITERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS".

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## SELECTED DATA FROM THE PRELIMINARY OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

|   |  |
|---|--|
| <b>The Issuer</b>   | The Orange County Water Control and Improvement District No. 1 (the "Issuer" or "District") was created by an order of the Texas State Board of Water Engineers (a State Agency that was a predecessor of the Texas Commission on Environmental Quality) on January 26, 1948 and confirmed by the electorate of the District in a confirmation election held on April 24, 1948. The District's creation was generally validated by the 57 <sup>th</sup> Legislature in 1961 and subsequently by the 59 <sup>th</sup> Legislature of Texas in 1965 and now operates under Chapters 49 and 51 of the Texas Water Code. The Board of Directors held its first meeting on February 4, 1948 and the District's first bonds were sold on May 27, 1955. The District is located in and around the City of Vidor, Texas and is the sole water and wastewater provider in the service area. The District consists of 8,006 acres and serves approximately 4,996 Water Equivalent Connections and 4,034 Sewer Connections with a population of approximately 14,300. The District is administered by a five member Board of Directors who are elected by voters in the District. |
| <b>The Bonds</b>  | The Bonds are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, of the Texas Water Code, Article XVI, Section 59 of the Texas Constitution, Chapter 1207, as amended, Texas Government Code, and an order (the "Order") adopted by the District's Board of Directors (the "Board") on April 15, 2019. (See "THE BONDS – Authority for Issuance" herein.)  |
| <b>Redemption</b>   | The District reserves the right to redeem the Bonds maturing on and after February 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)   |
| <b>Escrow Agent and Paying Agent/Registrar Security for Payment</b> | The Escrow Agent and the initial Paying Agent/Registrar will be UMB Bank, N.A., Austin, Texas.<br><br>The Bonds are payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.  |
| <b>Book-Entry-Only System</b>                                       | The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment and the method and transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)  |
| <b>Tax Matters</b>  | In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings, and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and "Appendix B - Form of Opinion of Bond Counsel" herein.)   |
| <b>Qualified Tax-Exempt Obligations</b>                             | The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS- Qualified Tax-Exempt Obligations" herein.)  |
| <b>Use of Bond Proceeds</b>   | Proceeds from the sale of the Bonds will be used for the purposes of (1) providing funds to refund certain of the District's currently outstanding obligations, as identified in Schedule I attached hereto, for debt service savings, and (2) paying the costs in connection with the issuance of the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)   |
| <b>Ratings</b>  | S&P Global Ratings ("S&P") has assigned an enhanced municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by Assured Guaranty Municipal Corp. ("AGM"). (See "BOND INSURANCE" herein.) The District received an S&P unenhanced underlying rating of "A-" on the Bonds. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)  |

|                           |   |
|---------------------------|---|
| <b>Bond Insurance</b>     | The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by AGM (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.) |
| <b>Payment Record</b>     | The District has never defaulted on the payment of its bonded indebtedness.   |
| <b>Future Bond issues</b> | The District has no plans to issue any other debt issues in the next 12 months.   |
| <b>Delivery</b>           | When issued, anticipated on or about May 21, 2019.  |
| <b>Legality</b>           | Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Bond Counsel, San Antonio, Texas.  |

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**OFFICIAL STATEMENT**  
relating to  
**\$9,015,000**  
**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**(A political subdivision of the State of Texas located in Orange County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2019**

**INTRODUCTORY STATEMENT**

This Official Statement, including the schedule and the appendices hereto, provides certain information in connection with the issuance by the Orange County Water Control and Improvement District No. 1 (the "District" or "Issuer") of its \$9,015,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds") identified on page 2 hereof.

The District is a political subdivision of the State of Texas and the Bonds are being issued pursuant to the laws of the State of Texas (the "State"), including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, Chapter 1207, as amended, Texas Government Code, and an order (the "Order") adopted by the Board of Directors (the "Board") of the District on April 15, 2019, being the date of sale of the Bonds (see "THE BONDS –Authority for Issuance" herein).

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** A copy of such documents may be obtained upon request from the District or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order.

**PLAN OF FINANCING**

**Purpose**

Proceeds from the sale of the Bonds will be used (1) to refund certain of the District's currently outstanding obligations, as identified in Schedule I hereto (the "Refunded Obligations") for debt service savings, and (2) for paying the costs of issuance of the Bonds.

**Refunded Obligations**

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with UMB Bank, N.A., Austin, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of April 15, 2019 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of early redemption. Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and will be used to purchase certain obligations of the United States of American and obligations of agencies and instrumentalities of the United States, including obligations that are unconditionally guaranteed by the agency or instrumentality, that are non-callable and that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" (the "Federal Securities").

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

The arithmetical accuracy of certain computations included in the schedules provided by SAMCO Capital Markets, Inc., as financial advisor to the District, on behalf of the District was examined by Ritz & Associates PA, Bloomington, Minnesota, (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by SAMCO Capital Markets, Inc. on behalf of the District. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits, if any, listed in the schedules provided by SAMCO Capital Markets, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Federal Securities and the Bonds contained in the provided schedules. The report of the Verification Agent will be relied upon by Bond Counsel in rendering its opinion with respect to the exclusion of the interest on the Bonds from gross income of the holders and the defeasance of the Refunded Obligations.

By the deposit of the cash and Federal Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the report provided by the Verification Agent, that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

## **THE BONDS**

### **General Description**

Interest on the Bonds will accrue from May 15, 2019 (the "Dated Date") and is payable initially on February 15, 2020, and each August 15 and February 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as Cede & Co., as the paying agent to DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial Paying Agent/Registrar for the Bonds shall be UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

If the specified date for any payment of principal of or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent for banking institutions generally in the city in which Designated Payment Transfer Office of the Paying Agent/Registrar is located, such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

### **Use of Bond Proceeds**

Proceeds from the sale of the Bonds will be used for the purpose of paying contractual obligations of the District (1) to refund certain of the District's currently outstanding obligations, as identified in Schedule I hereto (the "Refunded Obligations") for debt service savings, and (2) for paying the costs of any credit agreements executed in connection with the Bonds and paying such expenses as are incidental to the administration and financing of the District.



## Sources and Uses of Funds

The proceeds from the sale of the Bonds, along with a cash contribution from the District (if any), will be applied approximately as follows:

|  |                        |
|--|------------------------|
| Sources  |                        |
| Par Amount of the Bonds                        | \$ 9,015,000.00        |
| Accrued Interest on the Bonds                  | 5,855.83               |
| Reoffering Premium                             | <u>928,979.85</u>      |
| Total Sources of Funds                         | <u>\$ 9,949,835.68</u> |
| Uses   |                        |
| Escrow Fund Deposit                            | \$ 9,642,994.27        |
| Underwriters' Discount                         | 64,883.75              |
| Debt Service Fund Deposit                      | 5,855.83               |
| Costs of Issuance, including insurance premium | <u>236,101.83</u>      |
| Total Uses                                     | <u>\$ 9,949,835.68</u> |

## Authority for Issuance

The Bonds are being issued pursuant to the laws of the State of Texas, including Chapters 49 and 51, as amended, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, Chapter 1207, as amended, Texas Government Code, and an order (the "Order") adopted by the Board of Directors of the Orange County Water Control and Improvement District No. 1 (the "District" or the "Issuer") on April 15, 2019, being the date of sale of the Bonds.

## Source of and Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

## Redemption Provisions of the Bonds

The District reserves the right to redeem the Bonds maturing on and after February 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

The Underwriters may group one or more serial maturities of Bonds into term bonds (the "Term Bonds"). Term Bonds will also be subject to mandatory sinking fund redemption.

## Selection of Bonds to be Redeemed

The Bonds of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Bonds to be partially redeemed must be surrendered in exchange for one or more new Bonds for the unredeemed portion of the principal. If less than all of the Bonds are to be redeemed, the District will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bonds, or portion thereof, to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

## Notice of Redemption of the Bonds

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of any Bond, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See "THE BONDS - Book-Entry-Only System" herein).

#### **Funds**

The Order confirms establishment and maintenance by the District of a Bond Fund for the Bonds and an Escrow Fund (see "PLAN OF FINANCING – Refunded Obligations")

The Order confirms establishment and maintenance by the District of a Bond Fund as an account within the District's interest and sinking fund to be used to pay principal and interest on and fees in respect of the Bonds. The District will separately account for all money credited or required to be credited to the Bond Fund and all proceeds from the investment thereof. The District shall deposit to the Bond Fund no less frequently than monthly (1) all net tax revenues dedicated to payment of the Bonds, (2) any other moneys the District wishes to deposit to the Bond Fund, and (3) investment earnings on the foregoing. The District shall withdraw from the Bond Fund those amounts necessary to pay principal, interest, and Paying Agent fees with respect to the District's bonds, including the Bonds, as they become due.

#### **Issuance of Additional Debt**

The District may issue bonds or notes necessary to provide those improvements and facilities for which the District was created with the approval of the Texas Commission on Environmental Quality (the "TCEQ") or the Texas Water Development Board (the "TWDB") and, in the case of bonds payable from revenues or taxes (other than refunding bonds), the District's voters, generally. The District has no voter approved unlimited tax bonds authorized but unissued. District voters may authorize the issuance of additional unlimited ad valorem tax-supported bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to enter into certain other obligations including the issuance of revenue notes, bond anticipation notes, tax anticipation notes without voter approval, and refunding bonds to refund outstanding debt (such as the Bonds). Neither Texas law nor the Order imposes a limitation on the amount of additional debt payable from an annual ad valorem tax which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds.

#### **Specific Tax Covenants**

In the Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the property financed by the Refunded Obligations by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code.

#### **Additional Covenants**

The District has additionally covenanted in the Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit a report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

## **Legality**

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Bond Counsel, San Antonio, Texas.

## **Defeasance**

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

## **Default and Remedies**

If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained,

it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Order, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission (the "SEC"). Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

### **Record Date**

The record date ("Record Date") for determining the registered owner entitled to receive the interest payable on a Bond on any interest payment date means the last business day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar.

### **Special Record Date for Interest Payment**

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last day next preceding the date of mailing of such notice.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

### **Future Registration**

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or

exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

#### **Limitation on Transfer of Bonds**

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

#### **Replacement Bonds**

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

#### **BOOK-ENTRY-ONLY SYSTEM**

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the SEC, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner

entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor, and the Underwriters believe to be reliable, but none of the District, the Financial Advisor, or the Underwriters take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

## BOND INSURANCE

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (the "Insurer" or "AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

#### *Capitalization of AGM*

At December 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,533 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,034 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,873 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

#### **BOND INSURANCE GENERAL RISKS**

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE BONDS - Default and Remedies”). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the beneficial owners. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable from the ad valorem tax levied, within the limitations prescribed by law, on all taxable property located within the District. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

The long-term rating on the Bonds will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Bonds, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. (See the disclosure described in “OTHER PERTINENT INFORMATION - Ratings” herein.)

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer; the remedies available may be limited by applicable bankruptcy law. None of the District, the Underwriters, or the Financial Advisor has made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein.



## CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS

Moody's Investors Services, Inc., S&P Global Ratings, and Fitch Ratings, Inc. (collectively the "Rating Agencies") have, since 2008, downgraded, and/or placed on negative credit watch, the claims-paying ability and financial strength of all providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of municipal bond insurers. Thus, when making an investment decision, potential investors should carefully consider the ability of any such municipal bond insurer to pay principal and interest on the Bonds and the claims-paying ability of any such municipal bond insurer, particularly over the life of the investment.

### INVESTMENT POLICIES

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change.

#### Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted

by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### **Investment Policies**

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board.

### **Additional Provisions**

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the District that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority ), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

As of June 30, 2018

| <u>Investment Type</u> | <u>Amount</u>         | <u>Percentage</u> |
|------------------------|-----------------------|-------------------|
| Money Markets          | <u>\$9,062,004.00</u> | <u>100.00%</u>    |
|                        | <u>\$9,062,004.00</u> | <u>100.00%</u>    |

<sup>(1)</sup> Unaudited.

**AD VALOREM TAX PROCEDURES**

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. The District agrees in the Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under State law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See "TAX RATE LIMITATIONS."

**Property Tax Code and County Wide Appraisal District**

The Texas Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, school districts, and conservation and reclamation districts such as the District that participate in the appraisal district and of the county. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. All taxing units within Orange County, including the District, are included in the Orange County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Orange County Appraisal Review Board. The District must use the appraisal roll as approved by the Orange County Appraisal Review Board to establish its tax roll and tax rate.

**Valuation of Property for Taxation**

Generally, all taxable property in the District must be appraised by the Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year.

Certain land may be appraised at less than market value under the Property Tax Code. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The Property Tax Code permits land designated for agricultural use (including wildlife management) (Section 1-d), open space, or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the

District can collect taxes based on the new use, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business.

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by State law, all property with a tax situs in the District is subject to taxation by the District; however, no effort is made by the District to collect taxes on tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain non-profit cemeteries; farm products owned by the producer; and certain property owned by charitable, religious, scientific, literary, student housing, veterans, youth, development or fraternal organizations. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and windpowered energy devices; most individually owned automobiles; an exemption from \$5,000 to a maximum of \$12,000 for real and personal property of disabled veterans or the surviving spouse (so long as the surviving spouse remains unmarried) or minor children of a deceased disabled veteran; an exemption of \$5,000 of the assessed value of certain designated property of the surviving spouse or minor children of an individual that dies while on active duty in the armed forces; and certain classes of intangible property.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took *action* prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." Goods-in-transit is defined by Section 11.253 of the Tax Code, as personal property acquired or imported into the State and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year except that a taxing unit may not tax such goods-in-transit in a tax year that begins on or after January 1, 2012 unless the governing body of the taxing unit took such official action on or after October 1, 2011. A taxpayer may only receive either the freeport exemption or the goods-in-transit exemption for items of personal property. The District has taken action to tax both freeport property and goods-in-transit.

Article VIII, Section 1-l of the Texas Constitution provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

### **Residential Homestead Exemptions**

The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The Board has not granted any residential homestead exemptions except as discussed below. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of certain persons who are disabled or at least 65 years old, to the extent of \$3,000 of appraised value or more. The District is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District. The Board has granted such elderly and disabled exemptions in the amount of \$40,000 of assessed valuation for 2002 and thereafter.

A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100%, or the surviving spouse of a disabled veteran who would have qualified for such exemption if such exemption had been in effect on the date the disabled veteran died, is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or, under certain circumstances, the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different

property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or a part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of the death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Texas voters approved constitutional amendments which raised the constitutional homestead exemption from \$15,000 to \$25,000, and allows for the "freeze" on ad valorem taxes on the homestead of persons 65 years of age and older or for disabled persons for general elementary and secondary public school purposes to be transferable to a different residence homestead of such person. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, the surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the spouse died, and (iii) the property was the residence homestead of the surviving spouse when the spouse died and the property remains the residence property of the surviving spouse. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit.

#### **Tax Abatement**

Orange County, Texas may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District may enter into tax abatement agreements with owners of real property within the District for up to ten (10) years, agreeing not to levy taxes on all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner makes specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date and the District does not expect any area within the District to be so designated in the foreseeable future.

The District maintains participates in the residential tax abatement program established by the City of Vidor, Texas (the "City") for new residential construction and for the expansion or modernization of existing facilities and structures within the boundaries of the District which are also within the boundaries of certain tax increment reinvestment zones established by the City. Pursuant to Resolution 01-2018, the District has established a policy by which eligible property within the District may be eligible for a tax abatement.

Pursuant to the terms of the District's tax abatement policy, all property used as a single-family residence, with an assessed valuation over \$15,000, and located within the District boundaries and within a designated City reinvestment zone is eligible for tax abatement, is eligible for tax abatement. Pursuant to the terms of the District's tax abatement policy, the District has agreed to abate ad valorem taxation on 100% of the certified appraised value of any increase in assessed valuation resulting from improvements on eligible property for up to two years during construction. Upon construction completion, and for so long as the subject property remains eligible, the District has agreed to abate: 100% for the first two years thereafter; 90% for the third year thereafter; 75% for the fourth year thereafter; 60% for the fifth year thereafter; 45% for the sixth year thereafter; and 20% for the seventh year thereafter, at which point the abatement agreement will terminate. See "Table 5 – Classification of Assessed Valuation" in Appendix A for a description of the impact of the District's abatement policy on the District's total taxable assessed valuation

#### **District and Taxpayer Remedies**

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in State district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

## **Levy of Taxes**

The rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations.

The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. State law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, State law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases.

## **Collection of Taxes**

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 is entitled by law to pay current taxes on his residential homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residential homestead. Additionally, certain taxpayers, including the disabled, persons 65 years or older and disabled veterans, who qualified for certain tax exemptions are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1. The date of the delinquency may be postponed if the tax bills are mailed after January 10 of any year. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, one percent (1%) for each month thereafter to July 1, and twelve (12%) total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of one percent (1%) per month during the period they remain outstanding. In addition, where a district engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed twenty percent 20% on all taxes unpaid on July 1 in lieu of recovering attorney's fees. The District may be prohibited from collection of penalties and interest on real property owned by the Federal Depository Insurance Corporation. In prior years the District has engaged a delinquent tax attorney and imposed such a penalty.

## **District's Rights In The Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each state and local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years of foreclosure) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

## **Effect of FIRREA on Tax Collections**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the failure of a person to challenge an appraisal in accordance with State law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## TAX RATE LIMITATIONS

### Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

### Maintenance Tax

If approved through an election within the District, the District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying administrative expenses of the District. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the outstanding bonds, the Bonds and any additional tax bonds which may be issued in the future. The District currently levies no tax for maintenance and operations. At the present time, there is no consideration by the District to conduct an election for maintenance tax.

## TAX MATTERS

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as Appendix B.

In rendering the foregoing opinions, Bond Counsel will rely upon the report of the Verification Agent (see "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein) and upon representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

### Tax Changes

Existing law may change to reduce or eliminate the benefit to Bond holders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Bonds**

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS—Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

### **Tax Accounting Treatment of Premium Bonds**

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable Bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable Bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds

### **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.



## CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the "MSRB") through its EMMA system, where it will be available to the general public, free of charge at [www.emma.msrb.com](http://www.emma.msrb.com).

### Annual Reports

The District will file certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general included in Table 1 of the Official Statement and in Tables 1 through 14 in Appendix C. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2019.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet Web site or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A and in Appendix C or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day in December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change with the MSRB.

### Notices of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for a debt service reserve fund or for liquidity enhancement. In the Order, the District will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an Order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. The District intends the words used in clauses (15) and (16) of the immediately preceding paragraph to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

## Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

## Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

## Compliance with Prior Undertakings

Except as described below, during the past five years, the District has complied in all material respects with its continuing disclosure agreements undertaken in accordance with the Rule.

Due to an administrative oversight the District's financial audit for the fiscal year ended June 30, 2015, was filed on February 10, 2016, which filing was not timely under the Rule. In addition, the District did not file its unaudited financial statements in lieu of the audited financial statements for the fiscal year ended June 30, 2015 as required by the Rule. On August 22, 2017, the District filed a notice of material event concerning the late filing. The District has implemented internal procedures to ensure compliance with the Rule prospectively.

## LEGAL MATTERS

### Legal Opinions and No-Litigation Certificate

The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bonds are a valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, in substantially the form attached hereto as Appendix B. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "PLAN OF FINANCING – Refunded Obligations," "THE BONDS" (except under the subcaptions "Payment Record", "Use of Bond Proceeds" and "Default and Remedies" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "TAX RATE LIMITATIONS", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. Bond Counsel has been engaged by and only represents the District. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of

Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. The legal fees of Underwriters' counsel are contingent upon the delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **Litigation**

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of said Bonds.

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to insure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of law in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Application will prove to be accurate.

### **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by SAMCO Capital Markets, Inc., as financial advisor to the District, on behalf of the District was examined by Ritz & Associates PA, Bloomington, Minnesota, (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by SAMCO Capital Markets, Inc. on behalf of the District. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agent will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits, if any, listed in the schedules provided by SAMCO Capital Markets, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Federal Securities and the Bonds

contained in the provided schedules. The report of the Verification Agent will be relied upon by Bond Counsel in rendering its opinion with respect to the exclusion of the interest on the Bonds from gross income of the holders and the defeasance of the Refunded Obligations.

## **OTHER PERTINENT INFORMATION**

### **Impact of Hurricane Harvey**

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast near Rockport, Texas, about 18 miles northeast of the District, before stalling over the Victoria, Texas region (the "Region"), about 275 miles southwest of the District. On August 27, 2017, Hurricane Harvey moved slowly east toward the greater Houston, Texas area (the "Houston Region"), again stalling (but this time over the Houston Region) for several days. This resulted in significant and wide-spread flooding across the region.

The District's service area experienced catastrophic flooding, having received approximately 56 inches of rainfall from Tropical Storm Harvey. The District suffered damages to several of its facilities but the damages only disrupted sewer service for approximately 1 month with no disruption to water service. The sewer system sustained significant damage but was returned to service in a short period of time by making many temporary adaptations at lift stations and the wastewater treatment plant. Currently, the District's water and sewer systems are operating at full capacity.

On August 25, 2017, the President of the United States issued a major disaster declaration that included ORANGE COUNTY, Texas (where the District is located). The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including federal assistance, under the United States' Public Assistance program. The District carries flood insurance through Texas Municipal League Risk Pool and filed claims to cover eligible losses at sites that sustained damages. The District's insurance deductible for a declared disaster is 1%. For damages not covered by insurance, the District utilized funds from its General Operating Account and filed claims with the Federal Emergency Management Agency.

Additionally, on January 22, 2019, the Texas Water Development Board ("TWDB") approved a \$500,000 grant to fully restore operations at the Lower Lift Station with more reliable and dependable equipment. Currently, the Lower Lift Station is operational with equipment that was submerged and must be constantly monitored. The life expectancy of the temporarily repaired control panels, pumps, and motors is expected to be very short.

The District's area did experience catastrophic damages from Hurricane Harvey which resulted in a 10% loss in property valuation for the 2018 Tax Year. The combination of the loss in tax value and the scheduled increase in bond payments for the 2018/2019 Fiscal Year resulted in a 14.17806% increase in the tax rate from .35964 to .41063. The tax value for 2019 is expected to rebound to near pre-storm values. The District's tax rate, however, is determined by bond payments needed each year and the tax rate is set accordingly. The District's ability to pay debt service on Bonds, therefore, was not adversely affected.

### **Registration and Qualification of Bonds for Sale**

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **Ratings**

S&P Global Ratings ("S&P") has assigned an enhanced municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by AGM. (See "BOND INSURANCE" herein) The District received an S&P unenhanced, underlying rating of "A-" on the Bonds. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect

on the market price of the Bonds. The municipal bond rating is not a recommendation to buy, sell, or hold the Bonds. The rating fees of S&P will be paid by the District.

### **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

### **Financial Advisor**

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Underwriting**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Issuer at a price of \$9,879,096.10 (representing the par amount of the Bonds of \$9,015,000.00, plus a reoffering premium of \$928,979.85, and less an Underwriters' discount of \$64,883.75), and accrued interest on the Bonds in the amount of \$5,855.83.

The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

### **Certification of the Official Statement**

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the District, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

### **Information from External Sources**

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

**Concluding Statement**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Certificates by the Underwriters.

This Official Statement will be approved by the Board for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

/s/Robert Viator  
President, Board of Directors

ATTEST:

/s/Tim Beard  
Secretary, Board of Directors

**SCHEDULE I**

**Schedule of Refunded Obligations**

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**SCHEDULE I**

**Schedule of Refunded Obligations**

Orange County Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2007

| <b>Maturity Date</b> | <b>Principal</b>    | <b>Interest Rate</b> | <b>Redemption Date</b> |
|----------------------|---------------------|----------------------|------------------------|
| 2/15/2020            | \$ 125,000          | 3.650%               | 5/22/2019              |
| 2/15/2021            | 130,000             | 3.700%               | 5/22/2019              |
| 2/15/2022            | 135,000             | 3.750%               | 5/22/2019              |
| 2/15/2023            | 135,000             | 3.800%               | 5/22/2019              |
| 2/15/2024            | 145,000             | 3.800%               | 5/22/2019              |
| 2/15/2025            | 150,000             | 3.850%               | 5/22/2019              |
| 2/15/2026            | 155,000             | 3.850%               | 5/22/2019              |
| 2/15/2027            | 160,000             | 3.900%               | 5/22/2019              |
| 2/15/2028            | 165,000             | 3.900%               | 5/22/2019              |
| 2/15/2029            | 170,000             | 4.000%               | 5/22/2019              |
|                      | <u>\$ 1,470,000</u> |                      |                        |

Orange County Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2009

| <b>Maturity Date</b> | <b>Principal</b>       | <b>Interest Rate</b> | <b>Redemption Date</b> |
|----------------------|------------------------|----------------------|------------------------|
| 2/15/2022            | 575,000 <sup>(a)</sup> | 4.200%               | 8/15/2019              |
| 2/15/2023            | 680,000                | 4.350%               | 8/15/2019              |
| 2/15/2024            | 710,000                | 4.400%               | 8/15/2019              |
| 2/15/2025            | 745,000                | 4.600%               | 8/15/2019              |
| 2/15/2026            | 780,000                | 4.750%               | 8/15/2019              |
| 2/15/2027            | 820,000                | 4.800%               | 8/15/2019              |
| 2/15/2028            | 860,000                | 4.850%               | 8/15/2019              |
| 2/15/2029            | 900,000                | 4.900%               | 8/15/2019              |
| 2/15/2030            | 945,000                | 4.950%               | 8/15/2019              |
| 2/15/2031            | 995,000                | 5.050%               | 8/15/2019              |
|                      | <u>\$ 8,010,000</u>    |                      |                        |

<sup>(a)</sup> Represents a partial refunding of this stated maturity.

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**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

|   |                      |
|---|----------------------|
| 2018 Certified Market Value of Taxable Property (100% of Market Value)..... | \$ 460,880,133       |
| Less Exemptions:  |                      |
| Optional Over 65 or Disabled.....   | \$ 10,424,495        |
| Veterans' Exemptions.....   | 4,602,348            |
| Open-Space Land and Timberland.....   | 3,038,954            |
| Other.....  | 1,767,650            |
| Community Housing.....  | 1,647,971            |
| Abatement.....  | 2,381,102            |
| Loss to 10% HO Cap.....   | 258,524              |
| <b>TOTAL EXEMPTIONS</b> .....   | <b>\$ 24,121,044</b> |
| 2018 Certified Assessed Value of Taxable Property.....                      | \$ 436,759,089       |

*Source: Orange County Appraisal District.*

**GENERAL OBLIGATION BONDED DEBT**

*(as of March 1, 2019)*

**General Obligation Debt Principal Outstanding**

|                                     |                             |
|-------------------------------------|-----------------------------|
| Unlimited Tax Bonds, Series 2007    | \$ - (1)                    |
| Unlimited Tax Bonds, Series 2009    | 1,300,000 (1)               |
| Unlimited Tax Bonds, Series 2012    | 12,576,528                  |
| The Bonds                           | <u>9,015,000</u>            |
| Total Gross General Obligation Debt | <u><b>\$ 22,891,528</b></u> |

|   |                |
|---|----------------|
| 2018 Certified Net Taxable Assessed Valuation   | \$ 436,759,089 |
| Ratio of Total Gross General Obligation Debt to 2018 Certified Net Taxable Assessed Valuation | 5.24%          |

Population: est. 2018 - 14,832  
Per Capita Certified Net Taxable Assessed Valuation - \$29,447.08  
Per Capita Gross General Obligation Debt Principal - \$1,543.39\*  
Area: 8,006 acres  
Debt per Acre: \$2,859.30\*

<sup>(1)</sup> Excludes the Refunded Obligations.

**DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE**

**TABLE 2**

*(As of June 30, 2018)*

-NONE-

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

| Fiscal Year<br>Ending<br>June 30 | Current Total<br>Outstanding<br>Debt | Less:<br>Refunded<br>Obligations | The Bonds           |                     |                      | Combined<br>Debt<br>Service |
|----------------------------------|--------------------------------------|----------------------------------|---------------------|---------------------|----------------------|-----------------------------|
|                                  |                                      |                                  | Principal           | Interest            | Total                |                             |
| 2019                             | \$ 2,130,670                         |                                  |                     |                     |                      | \$ 2,130,670                |
| 2020                             | 2,176,340                            | \$ 559,778                       | \$ 115,000          | \$ 263,513          | \$ 378,513           | \$ 1,995,075                |
| 2021                             | 2,198,678                            | 560,215                          | 55,000              | 349,050             | 404,050              | 2,042,513                   |
| 2022                             | 2,218,555                            | 1,135,405                        | 640,000             | 347,400             | 987,400              | 2,070,550                   |
| 2023                             | 2,241,193                            | 1,211,193                        | 740,000             | 328,200             | 1,068,200            | 2,098,200                   |
| 2024                             | 2,266,483                            | 1,216,483                        | 780,000             | 298,600             | 1,078,600            | 2,128,600                   |
| 2025                             | 2,289,733                            | 1,219,733                        | 790,000             | 267,400             | 1,057,400            | 2,127,400                   |
| 2026                             | 2,309,688                            | 1,219,688                        | 940,000             | 235,800             | 1,175,800            | 2,265,800                   |
| 2027                             | 2,331,670                            | 1,221,670                        | 985,000             | 198,200             | 1,183,200            | 2,293,200                   |
| 2028                             | 2,356,070                            | 1,221,070                        | 1,020,000           | 158,800             | 1,178,800            | 2,313,800                   |
| 2029                             | 2,377,925                            | 1,217,925                        | 1,060,000           | 118,000             | 1,178,000            | 2,338,000                   |
| 2030                             | 2,402,025                            | 1,042,025                        | 925,000             | 75,600              | 1,000,600            | 2,360,600                   |
| 2031                             | 2,430,248                            | 1,045,248                        | 965,000             | 38,600              | 1,003,600            | 2,388,600                   |
| 2032                             | 2,455,000                            | -                                | -                   | -                   | -                    | 2,455,000                   |
| 2033                             | 2,475,000                            | -                                | -                   | -                   | -                    | 2,475,000                   |
| 2034                             | 2,500,000                            | -                                | -                   | -                   | -                    | 2,500,000                   |
| 2035                             | 2,525,000                            | -                                | -                   | -                   | -                    | 2,525,000                   |
| 2036                             | 2,550,000                            | -                                | -                   | -                   | -                    | 2,550,000                   |
| 2037                             | 2,580,000                            | -                                | -                   | -                   | -                    | 2,580,000                   |
| 2038                             | 2,605,000                            | -                                | -                   | -                   | -                    | 2,605,000                   |
| Total                            | <u>\$ 47,419,275</u>                 | <u>\$ 12,870,430</u>             | <u>\$ 9,015,000</u> | <u>\$ 2,679,163</u> | <u>\$ 11,694,163</u> | <u>\$ 46,243,008</u>        |

**TAX ADEQUACY**

|  |                           |
|--|---------------------------|
| 2018 Certified Freeze Adjusted Net Taxable Assessed Valuation  | \$ 436,759,089            |
| Maximum Annual Debt Service Requirements (Fiscal Year Ending 6-30-2038)                              | 2,605,000.00              |
| Less: I&S Fund Balance Contributed to Annual Debt Service Payment                                    | 325,000.00 <sup>(1)</sup> |
| Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements | \$ 0.5327                 |

<sup>(1)</sup> Due to the effects of Hurricane Harvey on the District's 2018 taxable assessed value, the District elected to transfer \$325,000 from the debt service fund balance to help offset the I&S tax rate increase.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(as of March 1, 2019)

| Fiscal Year<br>Ending 9-30 | Principal Repayment Schedule |                               |              |               | Principal<br>Unpaid at<br>End of Year | Percent of<br>Principal<br>Retired (%) |
|----------------------------|------------------------------|-------------------------------|--------------|---------------|---------------------------------------|--|
|                            | Currently<br>Outstanding     | Less: Refunded<br>Obligations | The<br>Bonds | Total         |                                       |  |
| 2019                       |                              |                               |              | \$ -          | \$ 22,891,528                         | 0.00%                                  |
| 2020                       | \$ 1,173,590                 | \$ 125,000                    | \$ 115,000   | 1,163,590     | 21,727,938                            | 5.08%                                  |
| 2021                       | 1,170,089                    | 130,000                       | 55,000       | 1,095,089     | 20,632,849                            | 9.87%                                  |
| 2022                       | 1,504,309                    | 710,000                       | 640,000      | 1,434,309     | 19,198,540                            | 16.13%                                 |
| 2023                       | 1,512,516                    | 815,000                       | 740,000      | 1,437,516     | 17,761,024                            | 22.41%                                 |
| 2024                       | 1,529,048                    | 855,000                       | 780,000      | 1,454,048     | 16,306,977                            | 28.76%                                 |
| 2025                       | 1,539,343                    | 895,000                       | 790,000      | 1,434,343     | 14,872,633                            | 35.03%                                 |
| 2026                       | 1,549,062                    | 935,000                       | 940,000      | 1,554,062     | 13,318,571                            | 41.82%                                 |
| 2027                       | 1,564,426                    | 980,000                       | 985,000      | 1,569,426     | 11,749,145                            | 48.67%                                 |
| 2028                       | 1,582,399                    | 1,025,000                     | 1,020,000    | 1,577,399     | 10,171,746                            | 55.57%                                 |
| 2029                       | 1,600,491                    | 1,070,000                     | 1,060,000    | 1,590,491     | 8,581,255                             | 62.51%                                 |
| 2030                       | 1,527,406                    | 945,000                       | 925,000      | 1,507,406     | 7,073,849                             | 69.10%                                 |
| 2031                       | 1,550,247                    | 995,000                       | 965,000      | 1,520,247     | 5,553,602                             | 75.74%                                 |
| 2032                       | 926,713                      | -                             | -            | 926,713       | 4,626,889                             | 79.79%                                 |
| 2033                       | 878,650                      | -                             | -            | 878,650       | 3,748,239                             | 83.63%                                 |
| 2034                       | 831,950                      | -                             | -            | 831,950       | 2,916,289                             | 87.26%                                 |
| 2035                       | 788,330                      | -                             | -            | 788,330       | 2,127,959                             | 90.70%                                 |
| 2036                       | 746,054                      | -                             | -            | 746,054       | 1,381,905                             | 93.96%                                 |
| 2037                       | 706,533                      | -                             | -            | 706,533       | 675,372                               | 97.05%                                 |
| 2038                       | 675,372                      | -                             | -            | 675,372       | (0)                                   | 100.00%                                |
| Total                      | \$ 23,356,528                | \$ 9,480,000                  | \$ 9,015,000 | \$ 22,891,528 |                                       |  |

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2009-2018**

**TABLE 3**

| Tax Year | Net Taxable<br>Assessed Valuation | Change From Preceding Year |         |
|----------|-----------------------------------|----------------------------|---------|
|          |                                   | Amount (\$)                | Percent |
| 2009-10  | \$ 377,909,299                    | ---                        | ---     |
| 2010-11  | 393,352,177                       | 15,442,878                 | 4.09%   |
| 2011-12  | 400,125,313                       | 6,773,136                  | 1.72%   |
| 2012-13  | 407,457,784                       | 7,332,471                  | 1.83%   |
| 2013-14  | 409,739,218                       | 2,281,434                  | 0.56%   |
| 2014-15  | 410,500,063                       | 760,845                    | 0.19%   |
| 2015-16  | 447,987,177                       | 37,487,114                 | 9.13%   |
| 2016-17  | 462,738,840                       | 14,751,663                 | 3.29%   |
| 2017-18  | 483,179,839                       | 20,440,999                 | 4.42%   |
| 2018-19* | 436,759,089                       | (46,420,750)               | -9.61%  |

Source: Orange County Appraisal District.

\* The decrease in 2018 taxable assessed value was due to damage caused as a result of Hurricane Harvey. After discussions with the Orange County Appraisal District, the District's management believes 2019 taxable assessed values will gain what was lost in 2018.

**PRINCIPAL TAXPAYERS 2018-2019**

**TABLE 4**

| Name                                | Type of Business/Property | % of Total 2018                        |                       |
|-------------------------------------|---------------------------|--|-----------------------|
|                                     |                           | 2018 Net Taxable<br>Assessed Valuation | Assessed<br>Valuation |
| Wal-Mart Real Estate Business Trust | Discount Store            | \$ 10,527,514                          | 2.18%                 |
| Entergy Texas, Inc.                 | Utility                   | 7,433,760                              | 1.54%                 |
| Trinity Industries, Inc.            | Railcare Repair Facility  | 4,667,490                              | 0.97%                 |
| Vidor Crossroads, LLC               | Shopping Center           | 3,303,813                              | 0.68%                 |
| Vidor Express, LLC                  | Hotel                     | 3,091,957                              | 0.64%                 |
| Houseman Development Corporation    | Business Property         | 3,307,040                              | 0.68%                 |
| Wal-Mart Store #457                 | Discount Store            | 2,852,801                              | 0.59%                 |
| Brewer, Larry                       | Rental Property           | 2,126,223                              | 0.44%                 |
| WMR Properties, LLC                 | Business Property         | 2,097,088                              | 0.43%                 |
| Guru Krupa, LLC                     | Hotel                     | 2,088,561                              | 0.43%                 |
|                                     |                           | <u>\$ 41,496,247</u>                   | <u>8.59%</u>          |

Source: Orange County Appraisal District.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 5**

|  | 2018*                 | % of Total     | 2017                  | % of Total     | 2016                  | % of Total     |
|--|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|
| Real, Residential, Single-Family           | \$ 276,803,509        | 60.06%         | \$ 332,069,514        | 65.47%         | \$ 314,154,883        | 65.01%         |
| Real, Residential, Multi-Family            | 10,214,275            | 2.22%          | 10,336,053            | 2.04%          | 6,067,282             | 1.26%          |
| Real, Vacant Lots/Tracts                   | 9,693,395             | 2.10%          | 9,567,505             | 1.89%          | 9,857,789             | 2.04%          |
| Real, Acreage (Land Only)                  | 3,255,664             | 0.71%          | 3,198,197             | 0.63%          | 2,790,455             | 0.58%          |
| Real, Farm and Ranch Improvements          | 4,984,153             | 1.08%          | 5,261,110             | 1.04%          | 5,134,689             | 1.06%          |
| Real, Commercial and Industrial            | 94,657,967            | 20.54%         | 87,239,824            | 17.20%         | 87,937,661            | 18.20%         |
| Real, Oil and Gas                          | 4,350                 | 0.00%          | 4,470                 | 0.00%          | 729,840               | 0.15%          |
| Real & Tangible, Personal Utilities        | 10,128,268            | 2.20%          | 10,383,563            | 2.05%          | 9,916,456             | 2.05%          |
| Tangible Personal, Commercial & Industrial | 40,087,563            | 8.70%          | 36,700,102            | 7.24%          | 33,180,058            | 6.87%          |
| Tangible Personal, Other                   | 8,989,482             | 1.95%          | 10,743,686            | 2.12%          | 11,376,779            | 2.35%          |
| Real Property, Inventory                   | 123,595               | 0.03%          | 206,749               | 0.04%          | 325,359               | 0.07%          |
| Special Inventory                          | 1,937,912             | 0.42%          | 1,524,234             | 0.30%          | 1,780,769             | 0.37%          |
| <b>Total Appraised Value</b>               | <b>\$ 460,880,133</b> | <b>100.00%</b> | <b>\$ 507,235,007</b> | <b>100.00%</b> | <b>\$ 483,252,020</b> | <b>100.00%</b> |
| <b>Less:</b>                               |                       |                |                       |                |                       |                |
| Optional Over 65 or Disabled               | \$ 10,424,495         |                | \$ 10,477,687         |                | \$ 10,354,373         |                |
| Veterans' Exemptions                       | 4,602,348             |                | 5,432,390             |                | 4,909,114             |                |
| Open-Space Land and Timberland             | 3,038,954             |                | 2,975,273             |                | 2,563,678             |                |
| Other                                      | 1,767,650             |                | 1,118,297             |                | 638,580               |                |
| Community Housing                          | 1,647,971             |                | 1,647,971             |                | -                     |                |
| Abatement                                  | 2,381,102             |                | 1,085,806             |                | -                     |                |
| Loss to 10% HO Cap                         | 258,524               |                | 1,317,744             |                | 2,047,435             |                |
| <b>Net Taxable Assessed Valuation</b>      | <b>\$ 436,759,089</b> |                | <b>\$ 483,179,839</b> |                | <b>\$ 462,738,840</b> |                |

Source: Orange County Appraisal District.

\* The decrease in 2018 taxable assessed value was due to damage caused as a result of Hurricane Harvey. After discussions with the Orange County Appraisal District, the District's management believes 2019 taxable assessed values will gain what was lost in 2018.

**TAX DATA**

**TABLE 6**

| Tax Year | Net Taxable Assessed Valuation | Tax Rate   | Tax Levy     | % of Collections           |       | Year Ended |
|----------|--------------------------------|------------|--------------|----------------------------|-------|------------|
|          |                                |            |              | Current                    | Total |            |
| 2008     | \$ 358,176,711                 | \$ 0.29047 | \$ 3,720,926 | 95.56                      | 96.48 | 9/30/2009  |
| 2009     | 377,909,299                    | 0.43813    | 4,042,979    | 94.03                      | 94.00 | 9/30/2010  |
| 2010     | 393,352,177                    | 0.40463    | 1,591,621    | 94.17                      | 95.38 | 9/30/2011  |
| 2011     | 400,125,313                    | 0.44159    | 1,766,913    | 93.71                      | 96.44 | 9/30/2012  |
| 2012     | 407,457,784                    | 0.45000    | 1,833,560    | 93.64                      | 96.37 | 9/30/2013  |
| 2013     | 409,739,218                    | 0.41962    | 1,719,348    | 94.18                      | 98.52 | 9/30/2014  |
| 2014     | 410,500,063                    | 0.46020    | 1,889,121    | 96.79                      | 97.89 | 9/30/2015  |
| 2015     | 447,987,177                    | 0.38726    | 1,734,875    | 93.89                      | 98.09 | 9/30/2016  |
| 2016     | 462,738,840                    | 0.38885    | 1,799,360    | 93.27                      | 97.96 | 9/30/2017  |
| 2017     | 483,179,839                    | 0.35964    | 1,737,708    | 94.02                      | 96.89 | 9/30/2018  |
| 2018     | 436,759,089                    | 0.41063    | 1,793,464    | (In Process of Collection) |       | 9/30/2019  |

**TAX RATE DISTRIBUTION**

**TABLE 7**

|            | 2018       | 2017       | 2016       | 2015       | 2014       |
|------------|------------|------------|------------|------------|------------|
| I & S Fund | \$ 0.41063 | \$ 0.35964 | \$ 0.38885 | \$ 0.38726 | \$ 0.46020 |

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, and the Orange County Appraisal District.



**OVERLAPPING DEBT INFORMATION****TABLE 8**

(As of March 1, 2019)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

| Taxing Body   | Gross Debt<br>(As of 3/1/2019) | %<br>Overlapping | Amount<br>Overlapping |
|---|--------------------------------|------------------|-----------------------|
| Orange County   | \$ 4,885,000                   | 7.84%            | \$ 382,984            |
| Vidor ISD   | 12,998,415                     | 41.97%           | 5,455,435             |
| City of Vidor   | 6,039,000                      | 100.00%          | 6,039,000             |
| Total Gross Overlapping Debt  |                                |                  | <u>\$ 11,877,419</u>  |
| Orange County Water Control and Improvement District No. 1                                  |                                |                  | \$ 22,891,528         |
| Total Gross Direct and Overlapping Debt   |                                |                  | <u>\$ 34,768,946</u>  |
| Ratio of Gross Direct and Overlapping Debt to 2018 Certified Net Taxable Assessed Valuation |                                |                  | 7.96%                 |
| Per Capita Gross Direct and Overlapping Debt  |                                |                  | \$ 2,344              |

Note: The above figures show Gross General Obligation Debt for the Issuer. The Issuer's General Obligation Debt is \$22,891,528. Calculations on the basis of General Obligation Debt would change the above figures as follows:

|   |               |
|---|---------------|
| Total Direct and Overlapping Debt   | \$ 34,768,946 |
| Ratio of Direct and Overlapping Debt to 2018 Certified Net Taxable Assessed Valuation | 7.96%         |
| Per Capita Net Direct and Overlapping Debt  | \$2,344.18    |

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

| Governmental Subdivision | 2018 Assessed Valuation | % of Actual | 2018 Tax Rate |
|--------------------------|-------------------------|-------------|---------------|
| Orange County            | \$ 5,572,756,727        | 100%        | 0.539         |
| Vidor ISD                | 1,040,551,189           | 100%        | 1.222         |
| City of Vidor            | 363,042,366             | 100%        | 0.724         |

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

| Issuer                 | Date of Authorization | Purpose | Amount Authorized | Issued To-Date | Unissued |
|------------------------|-----------------------|---------|-------------------|----------------|----------|
| Orange County          | None                  |         |                   |                |          |
| Vidor ISD              | None                  |         |                   |                |          |
| City of Vidor          | None                  |         |                   |                |          |
| Orange County WC&ID #1 | None                  |         |                   |                |          |

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

**TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information. Debt service payments and capital outlay have been removed from the expenditures.

|   | Fiscal Year Ended |              |              |              |              |
|---|-------------------|--------------|--------------|--------------|--------------|
|   | 6/30/2018         | 6/30/2017    | 6/30/2016    | 6/30/2015    | 6/30/2014    |
| Revenues  | \$ 3,948,605      | \$ 4,191,540 | \$ 4,260,823 | \$ 4,143,249 | \$ 4,249,440 |
| Expenditures                                    | 2,969,937         | 2,878,381    | 2,677,915    | 2,561,969    | 2,577,321    |
| Available for Revenue Bond Debt Service         | 978,668           | 1,313,159    | 1,582,908    | 1,581,280    | 1,672,119    |
| Revenue Bond Annual Debt Service <sup>(1)</sup> | \$ 1,024,939      | \$ 1,020,001 | \$ 1,023,091 | \$ 1,024,561 | \$ 1,021,342 |
| Coverage  | 0.95X             | 1.29X        | 1.55X        | 1.54X        | 1.64X        |

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the District.

(1) The Bonds are secured by a pledge of the District's ad valorem tax levy and not on system revenue. The District's tax rate for debt service on the Bonds is unlimited as to rate or amount, but such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds, and to abolish the District.

**WATERWORKS AND SEWER SYSTEM REVENUE BOND DEBT DATA****TABLE 10***(as of March 1, 2019)*

|  |    |                |
|--|----|----------------|
| Revenue Notes, New Series 2011           | \$ | 10,360,000     |
| Revenue Refunding Bonds, New Series 2013 |    | <u>300,000</u> |
| Total Revenue Bonded Debt                | \$ | 10,660,000     |

**UTILITY PLANT IN SERVICE****TABLE 11***(As of June 30, 2018)*

|  |    |                     |
|--|----|---------------------|
| Land and Easements                       | \$ | 303,729             |
| Buildings                                |    | 299,166             |
| Machinery and Equipment                  |    | 723,903             |
| Autos and Trucks                         |    | 350,053             |
| Office Furniture and Fixtures            |    | 159,524             |
| Water and Sewer System                   |    | 61,098,943          |
| Construction in Progress                 |    | <u>3,302,120</u>    |
| <b>Total</b>                             | \$ | 66,237,438          |
| Less: Accumulated Depreciation           |    | <u>(22,701,751)</u> |
| <b>Net Property, Plant and Equipment</b> | \$ | <u>43,535,687</u>   |

Source: *The Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.*

**WATER SOURCE**

The District maintains 3 water wells with a total capacity of 5,700 gallons per minute (GPM). Based on requirements of 0.6 GPM per connection set out by the Texas Commission of Environmental Quality ("TCEQ"), the District is required to have a capacity of 3,186 GPM. The District is currently at 56% capacity.

**WATER RATES**

**TABLE 12**

[Based on Monthly Billing]

Residential  
(Effective July 1, 2018)

| Gallons   | Inside District Limits | Outside District Limits |
|-----------|------------------------|-------------------------|
| 0 - 2,000 | \$11.81 (min)          | \$23.62 (min)           |
| 2,001 +   | \$0.26/100 gallons     | \$0.52/100 gallons      |

Commercial  
(Effective July 1, 2017)

| Gallons   | Inside District Limits | Outside District Limits |
|-----------|------------------------|-------------------------|
| 0 - 2,000 | 13.26                  | \$26.52 (min)           |
| 2,001 +   | \$0.291/100 gallons    | \$0.582/100 gallons     |

Flat rate unmetered service - \$32.61  
Out of District rates are two (2) times In District rates.

**SEWER TREATMENT**

The District completed construction on a 3.0 MGD Wastewater Treatment Plant in August of 2013. This new plant is designed to handle 12.0 MGD of storm water peak flow capacity. It is projected that the 3.0 MGD Wastewater Treatment Plant will be insufficient to handle anticipated growth for the next 30 years.

**SEWER RATES**

**TABLE 13**

[Based on Monthly Billing]

Residential  
(Effective July 1, 2018)

| Gallons   | Inside District Limits | Outside District Limits |
|-----------|------------------------|-------------------------|
| 0 - 2,000 | \$14.18 (min)          | \$28.36 (min)           |
| 2,001 +   | \$0.26/100 gallons     | \$0.52/100 gallons      |

Commercial  
(Effective July 1, 2018)

| Gallons   | Inside District Limits | Outside District Limits |
|-----------|------------------------|-------------------------|
| 0 - 2,000 | 15.92                  | \$31.84 (min)           |
| 2,001 +   | \$0.291/100 gallons    | \$0.582/100 gallons     |

Flat rate unmetered service - \$34.98  
Out of District rates are two (2) times In District rates.

**Plan Description**

Orange County Water Control & Improvement District No. 1 provides retirement, disability and death benefits for all of its full-time employees through participation in the statewide Texas County and District Retirement System (TCDRS), a nontraditional defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 760 nontraditoanl defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by sum of the employees contributions to the plan, with interest, and employer-financed monetary credits. The level of those monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS act.

At June 30, 2018, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 9         |
| Inactive employees entitled to but not yet receiving benefits    | 7         |
| Active employees   | <u>25</u> |
|  | <u>41</u> |

**Funding Policy**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 3.50% for the months of the accounting year in 2017 and 3.75% for th4e months of the accounting year in 2018. The Contribution rate is payable by the employee members for calendar years 2017 and 2018 is the rate of 7.00%, as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Annual Pension Cost**

For the employer's accounting year ended June 30, 2018, the annual pension cost for the TCDRS plan for its employees was \$70,610 and the actual contribution was \$52,609. The required contribution was determined as part of the December 31, 2017 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2017 included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll basis over a closed period with a layered approach.

**Net Pension Liability (Asset)**

|  | 12/31<br>2016 | 12/31<br>2017 |
|--|---------------|---------------|
| Total Pension liability                                  | 2,938,621     | 3,245,597     |
| Fiduciary net position                                   | 2,958,823     | 3,415,209     |
| Net pension liability/(asset)                            | (20,202)      | (169,612)     |
| Fiduciary net position as a % of total pension liability | 100.69%       | 105.23%       |
| Pensionable covered payroll <sup>(1)</sup>               | 1,235,678     | 1,360,927     |
| Net pension liability as a % of covered payroll          | -1.63%        | -12.46%       |

<sup>(1)</sup> Payroll is calculated based on contributions as reported to TCDRS.

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

**Discount Rate**

|   | 12/31<br>2016  | 12/31<br>2017  |
|---|----------------|----------------|
| Discount rate <sup>(2)</sup>  | 8.10%          | 8.10%          |
| Long-term expected rate of return,<br>net of investment expenses <sup>(2)</sup> | 8.10%          | 8.10%          |
| Municipal bond rate <sup>(3)</sup>  | Does not apply | Does not apply |

<sup>(2)</sup> This rate reflects the long-term rate of return funding valuation assumption 8.00%, plus 0.10% adjustment to be gross of administrative expenses required by GASB 68.

<sup>(3)</sup> the plan's fiduciary net position is projected to be available to make all projected future benefit payments of

**Other Key Actuarial Assumptions**

Updated mortality assumptions were reflected in 2017. All other actuarial assumptions that determined the total pension liability as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1 2013 - December 31, 2016, except where required to be different by GASB 68.

|                  | Beginning Date    | Ending Date       |
|------------------|-------------------|-------------------|
| Valuation Date   | December 31, 2016 | December 31, 2017 |
| Measurement Date | December 31, 2016 | December 31, 2017 |
| Reporting Date   | July 1, 2017      | June 30, 2018     |

---

**Actuarial Methods and Assumptions Used for GASB Calculations**

|  |   |
|--|---|
| Valuation Timing                                     | Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which contributions are reported.   |
| Actuarial Cost Methods                               | Entry Age Normal (1)  |
| Amortization Method                                  |   |
| Recognition of economic /demographic gains or losses | Straight-Line amortization over Expected Working Life   |
| Recognition of assumptions or inputs                 | Straight-Line amortization over Expected Working  |
| Asset Valuation Method                               |   |
| Smoothing Period                                     | 5 years   |
| Recognition method                                   | Non-asymptotic  |
| Corridor   | None  |
| Inflation  | 2.80%   |
| Salary Increases                                     | Varies by age and service. 4.9% average over career including inflation   |
| Investment Rate of Return                            | 8.10%   |
| Cost-of-Living Adjustments                           | Cost-of-Living Adjustments for Orange County Water Control and Improvement District #1 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GAS calculations. No assumption for future cost-of-living adjustments is included in the funding valuation |
| Retirement Age                                       | 60 and above  |
| Mortality  | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.   |

(1) Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

## EMPLOYEE'S PENSION PLAN

### Long-term Expected Rate of Return

The Long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

| Asset Class                         | Benchmark   | Target Allocation <sup>(1)</sup> | Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup> |
|-------------------------------------|---|----------------------------------|---|
| US Equities                         | Dow Jones U.S. Total Stock market Index   | 11.50%                           | 4.55%   |
| Private Equity                      | Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup> | 16.00%                           | 7.55%   |
| Global Equities                     | MSCI World (net) Index  | 1.50%                            | 4.85%   |
| Int'l Equities<br>Developed Markets | MSCI World Ex USA (net) index   | 11.00%                           | 4.55%   |
| Int'l Equities<br>Emerging Markets  | MSCI Emerging Markets (net) index   | 8.00%                            | 5.55%   |
| Int'l Equities<br>Grade Bods        | Bloomberg Barclays U.S. Aggregate Bond Index                                      | 3.00%                            | 0.75%   |
| Strategic Credit                    | FTSE High-Yield Cash-Pay Capped Index   | 8.00%                            | 4.12%   |
| Direct Lending                      | S&P/LSTA Leveraged Loan Index   | 10.00%                           | 8.06%   |
| Distressed Debt                     | Cambridge Assoc. Distressed Securities Index <sup>(4)</sup>                       | 2.00%                            | 6.30%   |
| REIT Equities                       | 67% FTSE NAREIT Equity REITs Index +33% S&P Global REIT (net) Index               | 2.00%                            | 4.05%   |
| Master Limited Partnership (MLPs)   | Alerian MLP Index   | 3.00%                            | 6.00%   |
| Private Real Estate Partnerships    | Cambridge Associates Real Estate Index <sup>(5)</sup>                             | 6.00%                            | 6.25%   |
| Hedge Funds                         | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index                    | 18.00%                           | 4.10%   |

<sup>(1)</sup> Target asset allocation adopted at the April 2018 TCDRS Board Meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95% per Cliffwater's 2018 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006 -present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Include vintage years 2007-present of Quarter Pooled Horizon IRRs.



**EMPLOYEE'S PENSION PLAN****Changes in Net Pension Liability**

|   | Total<br>Pension<br>Liability<br>(a) | Fiduciary<br>Net<br>Position<br>(b) | Net<br>Pension<br>Liability/(Asset)<br>(a) - (b) |
|---|--------------------------------------|-------------------------------------|--|
| Balances as of December 31, 2016                      | \$ 2,938,621                         | \$ 2,958,823                        | \$ (20,202)                                      |
| Changes for the year:                                 |                                      |                                     |  |
| Service Cost  | 124,504                              | -                                   | 124,504  |
| Interest on total<br>pension liability <sup>(1)</sup> | 243,472                              | -                                   | 243,472  |
| Effect of plan changes <sup>(2)</sup>                 | -                                    | -                                   | -  |
| Effect of<br>economic/demograph<br>ic gains or losses | 40,659                               | -                                   | 40,659   |
| Effect of assumptions<br>changes or inputs            | 15,212                               | -                                   | 15,212   |
| Refund of contributions                               | -                                    | -                                   | -  |
| Benefit payments                                      | (116,871)                            | (116,871)                           |  |
| Administrative expenses                               | -                                    | (2,271)                             | 2,271  |
| Member contributions                                  | -                                    | 95,265                              | (95,265)   |
| Net Investment Income                                 | -                                    | 432,303                             | (432,303)  |
| Employer contributions                                | -                                    | 47,633                              | (47,633)   |
| Other <sup>(3)</sup>                                  | -                                    | 327                                 | (327)  |
|   | <u>\$ 3,245,597</u>                  | <u>\$ 3,415,209</u>                 | <u>\$ (169,612)</u>                              |

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest

(2) No plan changes valued

(3) Relates to allocation of system-wide items.

**Sensitivity Analysis**

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Orange County Water Control & Improvement District No. 1 net pension liability would be if it were calculated using a discount rate that is 1 percent lower (7.10%) or 1 percent higher (9.10%) than the current rate.

|                               | 1%<br>Decrease<br>7.10% | Current<br>Discount<br>Rate<br>8.10% | 1%<br>Increase<br>9.10% |
|-------------------------------|-------------------------|--------------------------------------|-------------------------|
| Total pension liability       | \$ 3,667,945            | \$ 3,245,597                         | \$ 2,887,912            |
| Fiduciary net position        | 3,415,209               | 3,415,209                            | 3,415,209               |
| Net pension liability/(asset) | <u>\$ 252,736</u>       | <u>\$ (169,612)</u>                  | <u>\$ (527,297)</u>     |

**EMPLOYEE'S PENSION PLAN*****Pension Expense/(Income)***

|  | January 1, 2017 to<br>December 31, 2017 |
|--|---|
| Service cost   | \$ 124,504                              |
| Interest on total pension Liability <sup>(1)</sup>       | 243,472                                 |
| Effect on plan changes                                   | -                                       |
| Administrative expenses                                  | 2,271                                   |
| Member contributions                                     | (95,265)                                |
| Expected investment return net of<br>investment expenses | (240,621)                               |
| Recognition of deferred<br>inflows/outflows of resources |   |
| Recognition of economic<br>/demographic gains or losses  | 14,777                                  |
| Recognition of assumption<br>changes or inputs           | 6,016                                   |
| Recognition of investment gains<br>or losses             | 15,782                                  |
| Other <sup>(2)</sup>                                     | (326)                                   |
| Pension expense/(income)                                 | <u>\$ 70,610</u>                        |

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest

(2) Relates to allocation of system-wide items.

***Deferred Inflows/Outflows of Resources***

As of June 30, 2018, the deferred inflow and outflow of resources are as follows:

|   | Deferred<br>Inflows of<br>Resources | Deferred<br>Outflows of<br>Resources |
|---|-------------------------------------|--------------------------------------|
| Differences between expected<br>and actual experience | \$ 917                              | \$ 78,474                            |
| Changes of assumption                                 | -                                   | 28,411                               |
| Net difference between project<br>and actual earnings | 47,576                              | -                                    |
| Contributions made subsequent<br>to measurement date  | n/a                                 | 26,207                               |
|   | <u>\$ 48,493</u>                    | <u>\$ 133,092</u>                    |

Amounts currently reported as deferred outflows of resources and deferred inflow of resources relate4d to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

| Year Ended December 31: |           |
|-------------------------|-----------|
| 2018                    | \$ 36,576 |
| 2019                    | 29,736    |
| 2020                    | (13,170)  |
| 2021                    | 18,727    |
| 2022                    | 15,996    |
| Thereafter              | 7,981     |

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE  
ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
AND ORANGE COUNTY, TEXAS**

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## **ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

Orange County Water Control and Improvement District No. 1 was created in January 1948 to provide water and sewer facilities for business center and the most compact residential portion of the City of Vidor, located in western Orange County, approximately six miles east of Beaumont. Since 1948, the District has grown to incorporate all of the City of Vidor and the immediate surrounding area. It is estimated that the service population is 14,300.

### **CITY OF VIDOR, TEXAS**

The City of Vidor was established in western Orange County in 1902 as a logging camp for the Miller-Vidor-Lumber Company. From the very beginning, it actually existed on the Kansas City Southern Railroad. Vidor was named for mill operator C.S. Vidor. The City was incorporated on April 4, 1960 and covers 10.6 square miles.

The City of Vidor is an industrial center located about 12 miles east of Beaumont. Interstate 1 - bisects the City, and U.S. Highway 90m, State Highway 12, Farm-to-Market Roads 105 and 1132 serve the City. The economy is supported by industrial employment in the Orange, Beaumont, Nederland, Port Neches and Port Arthur areas. The area is one of the world's leading petrochemical centers. The City has a substantial business district that serves surrounding areas.

### **VIDOR INDEPENDENT SCHOOL DISTRICT**

The Vidor Independent School District had its beginnings in 1929 when four common school Districts (Magnolia Grove, Doty, Terry and Pine Forest) consolidated to form the Vidor Rural School District. The District became independent in 1949. Today the Vidor Independent School District encompasses 102.7 square miles in Orange County and 16 square miles in Jasper County. The District is bound in the west by the Neches River, on the east by Cow Bayou, on the south by Pecan Acres Area, and on the north by Jasper County line.

The District has 3 Elementary Schools, 2 Middle Schools, 1 High School and 1 alternative school.

### **ORANGE COUNTY, TEXAS**

Orange County was created and organized in 1852 from Jefferson County. Orange County is the 34<sup>th</sup> largest of the 254 counties in Texas, with an estimated

### **HISTORICAL POPULATIONS**

|      |        |
|------|--------|
| 2008 | 84,243 |
| 2009 | 83,959 |
| 2010 | 81,837 |
| 2011 | 82,337 |
| 2012 | 82,889 |
| 2013 | 82,816 |
| 2014 | 83,245 |
| 2015 | 83,928 |
| 2016 | 84,508 |
| 2017 | 85,047 |

### Labor Force Statistics <sup>(1)</sup>

|                      | <u>2019</u> <sup>(2)</sup> | <u>2018</u> <sup>(3)</sup> | <u>2017</u> <sup>(3)</sup> | <u>2016</u> <sup>(3)</sup> |
|----------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Civilian Labor Force | 37,616                     | 37,295                     | 37,186                     | 37,367                     |
| Total Employed       | 35,543                     | 35,158                     | 34,612                     | 34,865                     |
| Total Unemployed     | 2,073                      | 2,137                      | 2,574                      | 2,502                      |
| Unemployment Rate    | 5.5%                       | 5.7%                       | 6.9%                       | 6.7%                       |
| <br>                 |                            |                            |                            |                            |
| % U.S. Unemployment  | 3.8%                       | 3.9%                       | 4.4%                       | 4.9%                       |
| Texas Unemployment   | 3.8%                       | 3.9%                       | 4.3%                       | 4.6%                       |

(1) Source: Texas Workforce Commission.

(2) As of February, 2019.

(3) Average Annual Statistics.

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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Norton Rose Fulbright US LLP  
300 Convent Street, Suite 2100  
San Antonio, Texas 78205-3792  
United States

Tel +1 210 224 5575  
Fax +1 210 270 7205  
nortonrosefulbright.com

## FINAL

IN REGARD to the authorization and issuance of the “Orange County Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds, Series 2019” (the *Bonds*), dated May 15, 2019, in the aggregate principal amount of \$9,015,000 we have reviewed the legality and validity of the issuance thereof by the Board of Directors of the Orange County Water Control and Improvement District No. 1 (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 2020 through 2031, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Directors of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow and Trust Agreement (the *Escrow Agreement*) between the Issuer and UMB Bank N.A., Austin, Texas (the *Escrow Agent*), and a special report (the *Report*) by Ritz & Associates PA, Bloomington, Minnesota (the *Accountants*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law

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**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 UNLIMITED TAX REFUNDING BONDS, SERIES 2019”**

as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the Issuer; to take over all properties and assets of the Issuer; to assume all debts, liabilities, and obligations of the Issuer, including the Bonds; and to abolish the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the orders authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Accountants concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the Sufficiency Certificate of the Financial Advisor concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 UNLIMITED TAX REFUNDING BONDS, SERIES 2019”**

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements - not intended to be a complete statement of the Issuer's financial condition. Reference is made to the Annual Financial Report for further information)

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J. Pat O'Neill, III, CPA  
Michael W. Kiefer, CPA, CFE, CFF

**Wathen,  
DeShong  
& Juncker,**  
L.L.P.  
*Certified Public Accountants*

Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA, CITP, CGMA  
Jane P. Burns, CPA, CDEA

October 30, 2018

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Orange County Water Control & Improvement District No. 1  
Vidor, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, and each major fund of Orange County Water Control & Improvement District No. 1 as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Orange County Water Control & Improvement District No. 1's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of Orange County Water Control & Improvement District No. 1 as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 through 9; the Schedules of Changes in Employer's Net Pension Liabilities and Related Ratios and Employer Contributions on pages 39 through 40; and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Governmental Fund on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information on pages 4 through 9 and pages 38 and 39 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The required supplementary information on page 40 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County Water Control & Improvement District No. 1's, basic financial statements. The Texas Supplementary Information listed in the Table of Contents on pages 41 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information listed in the Table of Contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The current year financial information included in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedules of Services and Rates and Board Members, Key Personnel and Consultants have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

#### **Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of Orange County Water Control & Improvement District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Orange County Water Control & Improvement District No. 1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Water Control & Improvement District No. 1's internal control over financial reporting and compliance.

*Wathen, DeShong & Juncker, L.L.P.*

WATHEN, DeSHONG & JUNCKER, L.L.P.  
Certified Public Accountants



## ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

### Management's Discussion and Analysis For The Year Ended June 30, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Orange County Water Control & Improvement District No. 1 we offer readers of the Orange County Water Control & Improvement District No. 1 financial statements this narrative overview and analysis of the financial activities of the Orange County Water Control & Improvement District No. 1 for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the independent auditor's report and the District's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The assets of the Orange County Water Control & Improvement District No. 1 exceeded its liabilities at the close of 2018, by \$12,468,176. Of this amount, \$6,419,538 is considered unrestricted.
- The Orange County Water Control & Improvement District No. 1's total net position decreased by \$691,662 in fiscal year 2018.
- As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$10,224,308, a decrease of \$1,115,152. Of this total fund balance, \$1,021,856 is considered spendable and unassigned and is considered available for use.
- The general fund reported a fund balance of \$3,170,139 at the end of the current fiscal year. The unassigned fund balance for the general fund was \$1,021,856 or 25% of total general fund expenditures.
- The District decreased its debt by principal payments of \$1,875,000 during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Orange County Water Control & Improvement District No. 1's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** are designed to provide readers with a broad overview of the Orange County Water Control & Improvement District No. 1's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Orange County Water Control & Improvement District No. 1's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decrease in net position may serve as a useful indicator of whether the financial position of the Orange County Water Control & Improvement District No. 1 is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation).

The Statement of Activities includes collection and disbursement of ad valorem taxes to pay off long-term debt and operation of a water and sewer system.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis  
For The Year Ended June 30, 2018

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The government-wide financial statements can be found on pages 10 and 11 of this report.

**Fund financial statements** are a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Orange County Water Control & Improvement District No. 1, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Orange County Water Control & Improvement District No. 1 are governmental funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Orange County Water Control & Improvement District No. 1 maintains several governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Contingency Fund, and Construction & Capital Project Funds which are considered to be major funds.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the Financial Statements can be found on pages 18 through 37.

**Other information.** In addition to the basic financial statements and accompanying notes, required supplementary information presents a schedule of changes in employer's net pension liability and related ratios, schedule of employer contribution, and schedule of revenues, expenditures, and changes in fund balance-budget and actual to demonstrate compliance with the budget. The required supplementary information can be found on pages 38 through 40. Texas Supplementary Information is presented on pages 41 through 54.

#### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Orange County Water Control & Improvement District No. 1, assets exceeded liabilities by \$12,468,176 at June 30, 2018.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis  
For The Year Ended June 30, 2018

**STATEMENT OF NET POSITION**

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>Current assets:</b>                         |                      |                      |
| Cash & Investments                             | \$ 9,620,004         | \$ 10,920,950        |
| Taxes Receivable                               | 415,635              | 486,198              |
| Service Revenues Receivable                    | 597,272              | 574,174              |
| Due from Others                                | 91,998               | -                    |
| Inventory                                      | 109,282              | 111,733              |
| Net Pension Asset                              | 169,612              | 20,202               |
| Total current assets                           | <u>11,003,803</u>    | <u>12,113,257</u>    |
| <b>Noncurrent Assets:</b>                      |                      |                      |
| Capital Assets                                 | 66,237,438           | 65,257,485           |
| Less accumulated depreciation                  | <u>(22,701,751)</u>  | <u>(21,012,726)</u>  |
| Total noncurrent assets                        | <u>43,535,687</u>    | <u>44,244,759</u>    |
| Total assets                                   | <u>54,539,490</u>    | <u>56,358,016</u>    |
| <b>Deferred Outflows of Resources:</b>         |                      |                      |
| Deferred Outflows of Resources-pension related | <u>133,092</u>       | <u>253,155</u>       |
| <b>Current Liabilities:</b>                    |                      |                      |
| Accounts payable and accrued liabilities       | 160,011              | 254,620              |
| Customer LPSS deposits                         | 73,766               | 61,380               |
| Current portion of long-term debt              | <u>2,598,202</u>     | <u>2,229,287</u>     |
| Total current liabilities                      | <u>2,831,979</u>     | <u>2,545,287</u>     |
| <b>Long-term liabilities:</b>                  |                      |                      |
| Customer deposits                              | 362,805              | 358,390              |
| Long-term debt                                 | <u>38,961,129</u>    | <u>40,546,510</u>    |
| Total long-term liabilities                    | <u>39,323,934</u>    | <u>40,904,900</u>    |
| Total liabilities                              | <u>42,155,913</u>    | <u>43,450,187</u>    |
| <b>Deferred Inflows of Resources:</b>          |                      |                      |
| Deferred Inflows of Resources-pension related  | <u>48,493</u>        | <u>1,146</u>         |
| <b>Net Position:</b>                           |                      |                      |
| Net Investment in Capital Assets               | 3,754,743            | 3,107,969            |
| Restricted for Debt Service                    | 2,293,895            | 2,298,509            |
| Unrestricted                                   | <u>6,419,538</u>     | <u>7,753,360</u>     |
| Total net position                             | <u>\$ 12,468,176</u> | <u>\$ 13,159,838</u> |

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis  
For The Year Ended June 30, 2018

**Changes in net position**

The District's total revenues were \$6,018,283. A significant portion, 47%, of the District's revenue comes from charges for water and sewer services. Approximately 30% of the revenue comes from taxes.

The total cost of all programs and services was \$6,709,945; all of these costs are related to water and sewer services.

**Governmental Activities**

Property tax rates decreased by approximately .0293 cents per \$100 valuation. This decrease, accompanied by increasing values, resulted in a decrease in the tax levy to \$1,737,707.

**STATEMENT OF CHANGES IN NET POSITION**

|                                     | Government Wide<br>Activities |                     |
|-------------------------------------|-------------------------------|---------------------|
|                                     | 2018                          | 2017                |
| Program Revenues:                   |                               |                     |
| Charges for Services                |                               |                     |
| Water                               | \$ 1,426,943                  | \$ 1,503,610        |
| Sewer                               | 1,282,234                     | 1,449,545           |
| Service Fees                        | 103,452                       | 83,056              |
| General Revenues:                   |                               |                     |
| Taxes                               | 1,737,493                     | 1,795,349           |
| Penalty & Interest                  | 59,709                        | 59,003              |
| Interest on Temporary Investments   | 115,128                       | 43,802              |
| Revenue Note Collections            | 970,067                       | 1,036,043           |
| Miscellaneous Revenues              | 111,259                       | 106,005             |
| Grants and Contributions            | 111,998                       | -                   |
| Insurance Proceeds                  | 100,000                       | -                   |
| Total Revenues                      | <u>6,018,283</u>              | <u>6,076,413</u>    |
| Water and Sewer Service             | 1,003,335                     | 995,160             |
| Salaries, Benefits, & Payroll taxes | 1,824,219                     | 1,668,150           |
| Professional Fees                   | 109,791                       | 117,990             |
| Administrative Expenses             | 210,510                       | 202,259             |
| Other                               | 65,000                        | 52,662              |
| Interest and Fiscal Charges         | 1,707,843                     | 1,727,620           |
| Depreciation                        | 1,789,247                     | 1,783,130           |
| Total Expenses                      | <u>6,709,945</u>              | <u>6,546,971</u>    |
| Change in Net Position              | <u>\$ (691,662)</u>           | <u>\$ (470,558)</u> |

The following presents information of each of the District's largest functions:

- The cost of all governmental activities this year was \$6,709,945.
- Property tax revenue was \$1,797,202.
- \$2,812,629 was paid by those who directly received service.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis  
For The Year Ended June 30, 2018

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**General Fund Budgetary Highlights**

Over the course of the year, the District did not revise its budget. Actual expenditures were \$176,113 or 4.46% in excess of budgeted amounts in the General Fund. Resources available were \$247,595 or 5.90% less than budgeted amounts.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2018, the District had invested \$66,237,438 in a broad range of capital assets, including land, buildings, water and sewer systems, equipment, and vehicles.

**CAPITAL ASSETS**

**District's Capital Assets  
Activities**

|                                | <u>2018</u>          |
|--------------------------------|----------------------|
| Land                           | \$ 303,729           |
| Buildings and Improvements     | 299,166              |
| Water and Sewer System         | 61,098,943           |
| Machinery and Equipment        | 723,903              |
| Autos and Trucks               | 350,053              |
| Office Furniture and Fixtures  | 159,524              |
| Construction in Progress       | <u>3,302,120</u>     |
| Totals at historical cost      | <u>66,237,438</u>    |
| Total Accumulated Depreciation | <u>(22,701,751)</u>  |
| Net Capital Assets             | <u>\$ 43,535,687</u> |

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

Management's Discussion and Analysis  
For The Year Ended June 30, 2018

**LONG TERM DEBT**

At year-end the District had \$24,993,294 in bonds outstanding and \$10,840,000 in notes payable. More detailed information about the District's debt is presented in the notes to the financial statements.

| Bonds Payable:                      | Interest Rate | Amounts at Original Issue | Beginning Balance | Additions    | Retirements    | Ending Balance | Due Within One Year |
|-------------------------------------|---------------|---------------------------|-------------------|--------------|----------------|----------------|---------------------|
| <b>General Obligation</b>           |               |                           |                   |              |                |                |                     |
| 2007                                | 3.15%-4.00%   | \$ 2,500,000              | \$ 1,705,000      | \$ -         | \$ (115,000)   | \$ 1,590,000   | \$ 120,000          |
| 2009                                | 1.70%-5.05%   | 11,115,000                | 10,065,000        | -            | (175,000)      | 9,890,000      | 580,000             |
| 2009A Refunding                     | 3.75%         | 2,360,000                 | 950,000           | -            | (950,000)      | -              | -                   |
| <b>Revenue Bonds</b>                |               |                           |                   |              |                |                |                     |
| 2013 Refunding                      | 1.86%         | 1,230,000                 | 625,000           | -            | (160,000)      | 465,000        | 165,000             |
| <b>Capital Appreciation</b>         |               |                           |                   |              |                |                |                     |
| 2012                                | 1.20%-5.30%   | 13,999,994                | 13,048,294        | -            | -              | 13,048,294     | 471,767             |
| <b>Total Bonded Debt</b>            |               |                           | 26,393,294        | -            | (1,400,000)    | 24,993,294     | 1,336,767           |
| <b>Accreted Interest Payable</b>    |               |                           |                   |              |                |                |                     |
| 2012 Unlimited Tax Bonds            |               | -                         | 4,472,973         | 780,269      | -              | 5,253,242      | 448,233             |
| <b>Notes Payable</b>                |               |                           |                   |              |                |                |                     |
| 2011 Revenue Notes                  | 0.30%-4.10%   | 13,610,000                | 11,315,000        | -            | (475,000)      | 10,840,000     | 480,000             |
| <b>Compensated Absences Payable</b> |               |                           | 144,173           | -            | (61,833)       | 82,340         | -                   |
| <b>OPEB Liability</b>               |               |                           | 96,070            | -            | (38,817)       | 57,253         | -                   |
| <b>Accrued Interest Expense</b>     |               |                           | 354,287           | 333,202      | (354,287)      | 333,202        | 333,202             |
| <b>Customer Deposits</b>            |               |                           | 358,390           | 71,210       | (66,795)       | 362,805        | -                   |
| <b>Total Long-Term Liabilities</b>  |               |                           | \$ 43,134,187     | \$ 1,184,681 | \$ (2,396,732) | \$ 41,922,136  | \$ 2,598,202        |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The 2018-2019 budget was presented with no rate increase to the water and sewer rates and with no significant increase in the number of customers in the District. The General Fund Revenue Budget for 2018-2019 is \$4,200,000 which is a .09% increase from the 2017-2018 General Fund Budget of \$4,196,200.

There are no major expenditures anticipated other than the normal operating expenditures expected in servicing the customers of the District with the largest expenditures being related to employee wages and salaries. The General Fund Expenditure Budget for 2018-2019 is \$ 4,200,000, which is a 4.3% increase from the 2017-2018 General Fund Expenditure Budget of \$4,026,200.

The ad valorem tax roll for the 2018 tax year is \$436,759,089 with an adopted tax rate of \$0.41063 per \$100 valuation. All proceeds from ad valorem tax collection are used for debt service retirement.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's offices, located at 460 E. Bolivar Street, Vidor Texas 77662.

**BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF NET POSITION  
JUNE 30, 2018

EXHIBIT A

|  | Primary Government         |
|--|----------------------------|
|  | Governmental<br>Activities |
| <b>ASSETS</b>                            |                            |
| Cash and Cash Equivalents                | \$ 9,620,004               |
| Taxes Receivable, Net                    | 415,635                    |
| Accounts Receivable Net                  | 597,272                    |
| Due from Others                          | 91,998                     |
| Inventories                              | 109,282                    |
| Capital Assets:                          |                            |
| Land                                     | 303,729                    |
| Infrastructure, Net                      | 39,353,748                 |
| Buildings, Net                           | 122,554                    |
| Machinery and Equipment, Net             | 453,536                    |
| Construction in Progress                 | 3,302,120                  |
| Net Pension Asset                        | 169,612                    |
| Total Assets                             | 54,539,490                 |
| <b>DEFERRED OUTFLOW OF RESOURCES</b>     |                            |
| Deferred Outflow Related to Pension Plan | 133,092                    |
| Total Deferred Outflows of Resources     | 133,092                    |
| <b>LIABILITIES</b>                       |                            |
| Accounts Payable                         | 129,513                    |
| Wages and Salaries Payable               | 30,498                     |
| Unearned Revenues                        | 73,766                     |
| Noncurrent Liabilities:                  |                            |
| Due Within One Year                      | 2,598,202                  |
| Due in More Than One Year                | 39,323,934                 |
| Total Liabilities                        | 42,155,913                 |
| <b>DEFERRED INFLOW OF RESOURCES</b>      |                            |
| Deferred Inflow Related to Pension Plan  | 48,493                     |
| Total Deferred Inflows of Resources      | 48,493                     |
| <b>NET POSITION</b>                      |                            |
| Net Investment in Capital Assets         | 3,754,743                  |
| Restricted for Debt Service              | 2,293,895                  |
| Unrestricted                             | 6,419,538                  |
| Total Net Position                       | \$ 12,468,176              |

The notes to the financial statements are an integral part of this statement.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT B

|   | Program Revenues        |  |  | Net (Expense)<br>Revenue and<br>Changes in Net<br>Position |
|---|-------------------------|--|--|--|
| Expenses  | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Primary Gov.<br>Governmental<br>Activities |  |
| <b>Primary Government:</b>                      |                         |  |  |  |
| <b>GOVERNMENTAL ACTIVITIES:</b>                 |                         |  |  |  |
| Water and Sewer Services                        | \$ 1,003,335            | \$ 2,812,629                             | \$ -                                       | \$ 1,809,294   |
| Salaries, Benefits and Payroll Taxes            | 1,824,219               | -  | -  | (1,824,219)  |
| Professional Fees                               | 109,791                 | -  | -  | (109,791)  |
| Administrative Expenses                         | 210,510                 | -  | -  | (210,510)  |
| Other   | 65,000                  | -  | -  | (65,000)   |
| Depreciation Expense                            | 1,789,247               | -  | -  | (1,789,247)  |
| Interest on Debt                                | 1,707,843               | -  | -  | (1,707,843)  |
| <b>TOTAL PRIMARY GOVERNMENT</b>                 | <b>\$ 6,709,945</b>     | <b>\$ 2,812,629</b>                      | <b>\$ -</b>                                | <b>(3,897,316)</b>   |
| <br><b>General Revenues:</b>                    |                         |  |  |  |
| <b>Taxes:</b>                                   |                         |  |  |  |
| Property Taxes                                  |                         |  |  | 1,737,493  |
| Revenue Note Collections                        |                         |  |  | 970,067  |
| Penalty and Interest                            |                         |  |  | 59,709   |
| Grants and Contributions                        |                         |  |  | 111,998  |
| Investment Earnings                             |                         |  |  | 115,128  |
| Miscellaneous Revenue                           |                         |  |  | 111,259  |
| Insurance Proceeds                              |                         |  |  | 100,000  |
| <b>Total General Revenues and Special Items</b> |                         |  |  | <b>3,205,654</b>   |
|   |                         |  |  | <b>Change in Net Position</b>                              |
|   |                         |  |  | <b>(691,662)</b>   |
| <b>Net Position-- Beginning</b>                 |                         |  |  | <b>13,159,838</b>  |
| <b>Net Position--Ending</b>                     |                         |  |  | <b>\$ 12,468,176</b>                                       |

The notes to the financial statements are an integral part of this statement.

**FUND FINANCIAL STATEMENTS**

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

|   | General<br>Fund     | Debt Service<br>Fund | Contingency<br>Fund |
|---|---------------------|----------------------|---------------------|
| <b>ASSETS</b>                                       |                     |                      |                     |
| Cash and Cash Equivalents                           | \$ 2,642,682        | \$ 697,679           | \$ 3,051,980        |
| Taxes Receivable                                    | -                   | 488,982              | -                   |
| Allowance for Uncollectible Taxes (credit)          | -                   | (73,347)             | -                   |
| Accounts Receivable, Net                            | 597,272             | -                    | -                   |
| Due from Others                                     | -                   | -                    | -                   |
| Inventories   | 109,282             | -                    | -                   |
| Total Assets  | <u>\$ 3,349,236</u> | <u>\$ 1,113,314</u>  | <u>\$ 3,051,980</u> |
| <b>LIABILITIES</b>                                  |                     |                      |                     |
| Accounts Payable                                    | \$ 74,833           | \$ -                 | \$ -                |
| Wages and Salaries Payable                          | 30,498              | -                    | -                   |
| Unearned Revenues                                   | 73,766              | -                    | -                   |
| Total Liabilities                                   | <u>179,097</u>      | <u>-</u>             | <u>-</u>            |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                |                     |                      |                     |
| Unavailable Revenue - Property Taxes                | -                   | 376,106              | -                   |
| Total Deferred Inflows of Resources                 | <u>-</u>            | <u>376,106</u>       | <u>-</u>            |
| <b>FUND BALANCES</b>                                |                     |                      |                     |
| Nonspendable Fund Balance:                          |                     |                      |                     |
| Inventories   | 109,282             | -                    | -                   |
| Restricted Fund Balance:                            |                     |                      |                     |
| Capital Acquisition and Obligation                  | -                   | -                    | -                   |
| Retirement of Long-Term Debt                        | 1,977,565           | 737,208              | -                   |
| Assigned Fund Balance:                              |                     |                      |                     |
| Construction  | -                   | -                    | -                   |
| Other Assigned Fund Balance                         | 61,436              | -                    | 3,051,980           |
| Unassigned Fund Balance                             | 1,021,856           | -                    | -                   |
| Total Fund Balances                                 | <u>3,170,139</u>    | <u>737,208</u>       | <u>3,051,980</u>    |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 3,349,236</u> | <u>\$ 1,113,314</u>  | <u>\$ 3,051,980</u> |

The notes to the financial statements are an integral part of this statement.

| Construction<br>& Capital Pro<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------------|
| \$ 3,227,663                           | \$ 9,620,004                   |
| -                                      | 488,982                        |
| -                                      | (73,347)                       |
| -                                      | 597,272                        |
| 91,998                                 | 91,998                         |
| -                                      | 109,282                        |
| <u>\$ 3,319,661</u>                    | <u>\$ 10,834,191</u>           |
| \$ 54,680                              | \$ 129,513                     |
| -                                      | 30,498                         |
| -                                      | 73,766                         |
| <u>54,680</u>                          | <u>233,777</u>                 |
| -                                      | 376,106                        |
| -                                      | 376,106                        |
| -                                      | 109,282                        |
| 1,638,794                              | 1,638,794                      |
| -                                      | 2,714,773                      |
| 1,626,187                              | 1,626,187                      |
| -                                      | 3,113,416                      |
| -                                      | 1,021,856                      |
| <u>3,264,981</u>                       | <u>10,224,308</u>              |
| <u>\$ 3,319,661</u>                    | <u>\$ 10,834,191</u>           |

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ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2018

|   |           |                   |
|---|-----------|-------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | \$        | 10,224,308        |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.  |           | 43,535,687        |
| Property taxes receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.   |           | 376,106           |
| Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period, and, therefore, are not reported in the funds.                               |           | (41,419,738)      |
| Net pension assets (obligations) are not available to pay for current expenditures, are not due and payable in the current period and, therefore, are not reported in the governmental funds. |           | 254,211           |
| Other post employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.  |           | (57,253)          |
| Compensated absences and customer deposits are not due and payable in the current period and, therefore, are not reported in the governmental funds.  |           | (445,145)         |
| <b>Net Position of Governmental Activities</b>  | <b>\$</b> | <b>12,468,176</b> |

The notes to the financial statements are an integral part of this statement.

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

|  | General<br>Fund     | Debt Service<br>Fund | Contingency<br>Fund |
|--|---------------------|----------------------|---------------------|
| <b>REVENUES:</b>   |                     |                      |                     |
| Taxes:   |                     |                      |                     |
| Property Taxes   | \$ -                | \$ 1,798,982         | \$ -                |
| Penalty and Interest on Taxes                                | -                   | 59,709               | -                   |
| Water Services   | 1,426,943           | -                    | -                   |
| Sewer Services   | 1,282,234           | -                    | -                   |
| Other Service Fees   | 101,148             | 2,304                | -                   |
| FEMA Funding   | -                   | -                    | -                   |
| Investment Earnings  | 29,319              | 7,000                | 34,259              |
| Revenue Note Collections                                     | 970,067             | -                    | -                   |
| Contributions & Donations                                    | -                   | -                    | -                   |
| Other Revenue  | 138,894             | -                    | -                   |
| <b>Total Revenues</b>  | <b>3,948,605</b>    | <b>1,867,995</b>     | <b>34,259</b>       |
| <b>EXPENDITURES:</b>   |                     |                      |                     |
| Current:   |                     |                      |                     |
| General Government:  |                     |                      |                     |
| Water and Sewer Service                                      | 788,660             | -                    | -                   |
| Salaries, Benefits and Payroll Taxes                         | 1,865,544           | -                    | -                   |
| Professional Fees  | 66,899              | -                    | -                   |
| Administrative Expenses                                      | 210,510             | -                    | -                   |
| Other  | 38,324              | 26,676               | -                   |
| Debt Service:  |                     |                      |                     |
| Bond Principal   | 635,000             | 1,240,000            | -                   |
| Bond Interest and Fiscal Charges                             | 390,639             | 558,020              | -                   |
| Capital Outlay:  |                     |                      |                     |
| Capital Outlay   | 106,737             | -                    | -                   |
| <b>Total Expenditures</b>                                    | <b>4,102,313</b>    | <b>1,824,696</b>     | <b>-</b>            |
| Excess (Deficiency) of Revenues Over (Under)<br>Expenditures | <b>(153,708)</b>    | <b>43,299</b>        | <b>34,259</b>       |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                     |                      |                     |
| Transfers In   | -                   | -                    | 17,137              |
| Insurance Recovery   | -                   | -                    | -                   |
| Transfers Out (Use)  | (108,000)           | -                    | -                   |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>(108,000)</b>    | <b>-</b>             | <b>17,137</b>       |
| Net Change in Fund Balances                                  | (261,708)           | 43,299               | 51,396              |
| Fund Balance - July 1 (Beginning)                            | 3,431,847           | 693,909              | 3,000,584           |
| Fund Balance - June 30 (Ending)                              | <b>\$ 3,170,139</b> | <b>\$ 737,208</b>    | <b>\$ 3,051,980</b> |

The notes to the financial statements are an integral part of this statement.



| Construction<br>& Capital Pro<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------------|
| \$ -                                   | \$ 1,798,982                   |
| -                                      | 59,709                         |
| -                                      | 1,426,943                      |
| -                                      | 1,282,234                      |
| -                                      | 103,452                        |
| 91,998                                 | 91,998                         |
| 44,550                                 | 115,128                        |
| -                                      | 970,067                        |
| 20,000                                 | 20,000                         |
| -                                      | <u>138,894</u>                 |
| <u>156,548</u>                         | <u>6,007,407</u>               |
| -                                      | 788,660                        |
| -                                      | 1,865,544                      |
| 42,892                                 | 109,791                        |
| -                                      | 210,510                        |
| -                                      | 65,000                         |
| -                                      | 1,875,000                      |
| -                                      | 948,659                        |
| <u>1,252,658</u>                       | <u>1,359,395</u>               |
| <u>1,295,550</u>                       | <u>7,222,559</u>               |
| <u>(1,139,002)</u>                     | <u>(1,215,152)</u>             |
| 108,000                                | 125,137                        |
| 100,000                                | 100,000                        |
| <u>(17,137)</u>                        | <u>(125,137)</u>               |
| <u>190,863</u>                         | <u>100,000</u>                 |
| (948,139)                              | (1,115,152)                    |
| <u>4,213,120</u>                       | <u>11,339,460</u>              |
| <u>\$ 3,264,981</u>                    | <u>\$ 10,224,308</u>           |

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT C-4

|   |           |                         |
|---|-----------|-------------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>   | \$        | (1,115,152)             |
| Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.  |           | (61,489)                |
| Current year capital outlays are expenditures in the fund financial statements, but are reported as increases in capital assets in the government-wide financial statements.  |           | 1,103,395               |
| Government-wide financial statements capitalize long-term assets and depreciate the assets over their useful life. Long-term assets are not carried on the governmental fund basis and are expensed in the current period. Gains and (losses) associated with the disposal of a capital asset is not recorded on the governmental fund basis. |           | (23,220)                |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.  |           | (1,789,247)             |
| The repayment of the principal portion of long-term debt consumes current financial resources of the governmental funds; however, it has no impact on the net position of the government-wide activities.   |           | 1,875,000               |
| Interest on long-term governmental debt is not due and payable in the current period and, accordingly, is not reported as a current period expenditure. Interest expense on the long-term debt of governmental activities is accrued and accreted in the Statement of Activities.   |           | (759,184)               |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These include changes in other post employment benefits, net pension asset, and compensated absences.   |           | 78,235                  |
| <b>Change in Net Position of Governmental Activities</b>  | <b>\$</b> | <b><u>(691,662)</u></b> |

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – GENERAL STATEMENT

Orange County Water Control and Improvement District No. 1, Vidor, Texas (the District) was created by an order of the Texas State Board of Water Engineers on January 26, 1948 and confirmed by the electorate of the District in a confirmation election held on April, 24, 1948. The District was validated by the 57<sup>th</sup> Legislature of Texas in 1965 and operates under Chapter 51 of the Texas Water Code. The Board of Directors held its first meeting on February 4, 1948 and the first bonds were sold on May 27, 1955. The general purpose financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's significant accounting policies.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The District provides water and sewer to the Vidor area of Orange County. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by generally accepted accounting principles. Based upon these principles, the basic criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant criteria is financial interdependency. Other factors affecting the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public services. Based upon these criteria, there are no component units to the District, nor is the District a component unit of any governmental body.

#### B. Excluded from the reporting entity

Water and sewer development and improvement grants received from the Texas Department of Housing and Community Affairs through the City of Vidor, the City of Rose City, or the County of Orange are administered by those entities and are not included in the District's general purpose financial statements except for those costs incurred by the District as the project progresses.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenue. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible during the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if it is collected within 60 days of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, accounts receivable for service, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **C. Government-wide and Fund Financial Statements (Continued)**

The District has the following Governmental Funds:

*General Fund* – The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

*Debt Service Fund* – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Contingency Fund* – The Contingency Fund is a special revenue fund. Established in the fiscal year ended June 30, 2014, it is to be used for emergencies only. Money is set aside regularly, and it is the goal of the Board of Directors to have \$3,000,000 available for emergency uses.

*Construction Fund* – This fund was formerly referred to and shown on the financial statements as the Capital Projects Fund. It accounts for the resources used for the construction or acquisition of major capital facilities when the construction or acquisition is paid for by grants, bonds, or by loans.

*Capital Projects Fund* – The Capital Projects Fund, established in the fiscal year ended June 30, 2014, accounts for the District’s financial resources to be used for the rehabilitation and expansion of the District’s infrastructure and facilities.

#### **D. Basis of Accounting**

The basis of accounting is the method by which revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Most revenue sources are recorded as revenues when received in cash because they are generally not measurable until actually received. Deferred revenues are amounts which have been deemed measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when due.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **E. Cash and Investments**

Cash includes amounts in demand deposits as well as money market accounts. The District Board has approved making investments in the Lone Star Investment Pool, but the District had no investments in the pool at June 30, 2018.

The District, in compliance with legal requirements, has written investment policy and the District's investment officers have received the required hours of training on the Texas Public Funds Investment Act and related investment issues for the year.

#### **F. Encumbrances**

The District does not use encumbrance accounting.

#### **G. Materials and Supplies Inventories**

Inventories are valued at cost using the first-in, first-out basis which approximates market. Inventories for all funds consist of expendable supplies held for consumption and the cost thereof is recorded as expenditure as the individual inventory items are issued (consumption method).

#### **H. Interfund Transactions**

*Interfund Receivable and Payable* – Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts.

*Transactions Between Funds* – Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the District are accounted for as revenues, expenditures, or expenses in the funds involved.

#### **I. Land, Buildings and Equipment**

General fixed assets have been acquired or constructed for general governmental purposes. Infrastructure assets and other fixed assets are recorded as expenditures in the governmental funds and capitalized at cost and recorded in the government-wide financial statements. Gifts or contributions of general fixed assets are recorded at estimated fair market value upon receipt. Interest has been capitalized as appropriate.

It is the policy of the District to capitalize assets with an individual cost of \$3,000 or more and a useful life of at least two years. Depreciating is computed using the straight-line method over the following useful lives:

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Land, Buildings and Equipment (Continued)**

**Assets**

| <u>Assets</u>              | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 35           |
| Water and Sewer System     | 35           |
| Machinery and Equipment    | 5-10         |

**J. Long-term Liabilities**

Long-term liabilities that will be financed from governmental funds are recorded in the government-wide financial statements. The general long-term debt is secured by the general credit and taxing powers of the District.

**K. Compensated Absences**

Employees of the District are granted vacation benefits in varying amounts based upon tenure with the District. Unused vacation has a maximum allowable accumulation of twenty-five days. Each December 31, any excess balance will be reduced to the maximums by paid compensation. Unused vacation leave shall be paid upon termination of employment with the District.

Sick leave accrues to regular full-time employees to a maximum of one hundred twenty days. Each December 31, any excess of the maximum is reduced to the maximum without compensation. Unused sick leave is not compensatory upon separation from employment with the District, except that after twelve years of employment and for qualified retirement, the equivalent of one-half of accumulated sick leave shall be paid not to exceed a total of sixty days.

The estimated accrued liability for compensated absences for vacation and sick leave is as follows.

|              | <u>Number of<br/>Qualifying<br/>Employees</u> | <u>Maximum<br/>Days per<br/>Employee</u> | <u>Total Accrued</u> |
|--------------|---|--|----------------------|
| Sick leave   | 2   | 60                                       | \$ 22,019            |
| Vacation     | 19  | 40                                       | 60,321               |
| <b>Total</b> | <b>21</b>                                     | <b>100</b>                               | <b>\$ 82,340</b>     |

Total accrued sick leave reflects 50% of estimated total liability due to its non-compensatory nature as explained in Note K above.



# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **L. Post-Retirement Benefits**

The District currently pays one-half of the medical insurance premiums for its retirees from retirement to age 65. Liability for this benefit for one year is currently estimated to be \$57,252.

Financial reports information pertaining to the District's participation in the Texas County and District Retirement System (TCDRS) was prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

#### **M. Property Taxes**

Ad valorem taxes, penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the fiscal year.

#### **N. Tax Abatements**

The Orange County Water Control and Improvement District No. 1 is committed to an expansion of its tax base, an increase to its population, the promotion of development in the District, and to an ongoing improvement in the quality of life for its residents. The District offers residential tax abatements for residents within the boundaries of the District Reinvestment Zones designated by the City of Vidor Ordinances Nos. 1247, 1248, 1249, 1250 and 1251 as a stimulus for economic development in the District. Property eligible for tax abatement per the guidelines and criteria is defined as: all property used as a single-family residence, located within a designated Reinvestment Zone, and within the boundaries of the District. As provided in the Act, abatement may only be granted for the value of eligible property subsequent to and listed in an abatement agreement between the District and the property owner, or the City of Vidor and the property owner where the District has, by official action, expressed an intent to be bound by the terms of the agreement in accordance with Section 312.206(a) of the Texas Property Code.

Upon determination that all requirements for tax abatement have been satisfied by the applicant, the value and terms of the abatements will be for a period of eight (8) years in accordance with the Schedule of Taxes Assessed stated in resolution no. 01-2018 of the Board of Directors of the District. Abatement shall be granted effective with the January 1 valuation date immediately following the date of approval of the abatement agreement and completion of construction of the property.

For the fiscal year ended June 30, 2018, the District abated property valued at \$2,381,102, which resulted in abated property taxes totaling \$8,563. All abatement agreements were in relation to residential property, and no single abatement exceeded 15% of the total abated value.

#### **O. Budget**

The District adopts an annual budget for the general fund only. The budget is adopted prior to the start of the fiscal and is based on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. Appropriations lapse at year end.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **P. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts off assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts and expenses during the reporting periods. Actual results could differ from those estimates.

#### **Q. Application of Resources**

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### **R. Fund Equity**

The District has adopted GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance - amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance -- amounts that are restricted to specific purposes externally imposed by creditors, grantors, contributors, or imposed by the laws or regulations of other governments.

Committed fund balance -- amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Board takes the highest level action to remove or change the constraint.

Assigned fund balance - the portion of fund balance that the Board of Directors and management intends to use for specific purposes.

Unassigned fund balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

When the District incurs expenditures for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance. The District establishes (and modifies or rescinds) fund balance commitments by passage of a motion or resolution by the Board of Directors. This is done through adoption and amendment of the budget.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### R. Fund Equity (Continued)

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets represents capital asset balances reduced by accumulated depreciation and by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on the use by the board of directors, designation, or through external restriction imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

### NOTE 3 – CASH AND INVESTMENTS

Texas statute and the District's investment policy authorize the District to invest in U.S. Treasury, bills, notes and bonds, which are backed by the full faith and credit of the United States government, U.S. governmental agency securities, and insured or collateralized time deposits issued by banks domiciled in the State of Texas.

At the year-end, the carrying amount of the District's deposits was \$9,620,004 and the bank balance was \$9,661,677. All deposits as of the financial statement date were insured by FDIC coverage or collateralized by a letter of credit and pledged securities held by the depository's agent in the District's name.

Following are the components of the District's cash and investments at June 30, 2018:

|                      | Assets       |              |              | Bond Revenue<br>Requirements |
|----------------------|--------------|--------------|--------------|------------------------------|
|                      | Unrestricted | Restricted   | Total        |                              |
| Cash Accounts        |              |              |              |                              |
| Interest and Sinking | \$ -         | \$ 1,494,663 | \$ 1,494,663 | \$ -                         |
| Bond Reserves (2011) | -            | 1,012,325    | 1,012,325    | 953,382                      |
| Bond Reserves (2013) | -            | 168,256      | 168,256      | 165,236                      |
| Bond Proceeds        | -            | 1,601,485    | 1,601,485    | -                            |
| Customer Deposits    | -            | 434,843      | 434,843      | -                            |
| Other                | 4,908,432    | -            | 4,908,432    | -                            |
|                      | \$ 4,908,432 | \$ 4,711,572 | \$ 9,620,004 | \$ 1,118,618                 |

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 4 - PROPERTY TAXES

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of January 1 for all real property located in the District. The assessed value of the roll upon which the levy for the 2017 calendar year was based was \$483,179,839. The tax rate assessed for the year ended June 30, 2018, to service bonded indebtedness was \$0.3596 per \$100 valuation.

Property taxes attached as an enforceable lien on the property as of February 1 following the levy date. Taxes are due October 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2018 were 92.14% of the tax.

### NOTE 5 - CAPITAL ASSETS

Following is a summary of the District's capital asset activity:

|   | Balance<br>July 1,<br>2017 | Additions    | Retirements | Balance<br>June 30,<br>2018 |
|---|----------------------------|--------------|-------------|-----------------------------|
| <b>Capital Assets</b>                         |                            |              |             |                             |
| Capital assets, not being depreciated         |                            |              |             |                             |
| Land  | \$ 303,729                 | \$ -         | \$ -        | \$ 303,729                  |
| Construction-in-progress                      | 2,406,324                  | 895,796      | -           | 3,302,120                   |
| Total capital assets, not being depreciated   | 2,710,053                  | 895,796      | -           | 3,605,849                   |
| Capital assets, being depreciated             |                            |              |             |                             |
| Buildings                                     | 299,166                    | -            | -           | 299,166                     |
| Improvements other than buildings             | 61,093,616                 | 5,327        | -           | 61,098,943                  |
| Machinery and equipment                       | 1,154,650                  | 202,272      | (123,442)   | 1,233,480                   |
| Total capital assets, being depreciated       | 62,547,432                 | 207,599      | (123,442)   | 62,631,589                  |
| Less accumulated depreciation                 |                            |              |             |                             |
| Buildings                                     | 166,996                    | 9,616        | -           | 176,612                     |
| Improvements other than buildings             | 20,037,831                 | 1,707,364    | -           | 21,745,195                  |
| Machinery and equipment                       | 807,899                    | 72,267       | (100,222)   | 779,944                     |
| Total accumulated depreciation                | 21,012,726                 | 1,789,247    | (100,222)   | 22,701,751                  |
| Total capital assets, being depreciation, net | 41,534,706                 | (1,581,648)  | (23,220)    | 39,929,838                  |
| Total capital assets, net                     | \$ 44,244,759              | \$ (685,852) | \$ (23,220) | \$ 43,535,687               |

Depreciation expense was \$1,789,247 for the fiscal year ended June 30, 2018.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 5 - CAPITAL ASSETS (CONTINUED)

The following represents the District's construction commitments for the year ended June 30, 2018:

| Project   | Commitment          | Spent to Date       | Remaining Commitment |
|---|---------------------|---------------------|----------------------|
| Contract 1 Water System Improvements Project          | \$ 1,207,563        | \$ 1,207,563        | \$ -                 |
| Contract 2 Water System Improvements Project          | 1,005,249           | 903,248             | 102,001              |
| Contract 3 Water and Sewer Service Extensions Project | 677,675             | 35,586              | 642,089              |
| Contract 4 Sanitary Sewer System Improvements Project | 1,099,114           | 50,697              | 1,048,417            |
| Engineering Water System Improvements Project         | 423,670             | 414,670             | 9,000                |
| Well Site 7 TTHM Treatment System                     | 748,106             | 690,356             | 57,750               |
| Totals  | <u>\$ 5,161,377</u> | <u>\$ 3,302,120</u> | <u>\$ 1,859,257</u>  |

### NOTE 6 - ADVANCE REFUNDING OF DEBT

#### *2001 Revenue Notes*

On January 15, 2013, the District issued \$1,230,000 in revenue refunding bonds with an interest rate of 1.86%. The proceeds were used to advance refund the \$1,375,000 outstanding balance of the 2001 revenue notes which had interest rates ranging from 3.15% to 3.9%. From the net proceeds of \$1,230,000 plus an additional \$193,778 of District funds, \$28,120 was used to pay the costs of issuance and \$1,395,658 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded revenue notes. As a result, the 2001 revenue notes are considered defeased and the liability for them has been removed from the statement of net position.

The advance refunding of the revenue notes reduced the total debt service payments over 9 years by \$108,350. The present value of the saving from cash flow, \$99,131, less prior funds on hand of \$25,000, resulted in net present value savings of \$74,131.

#### *2003 Unlimited Tax Bonds Refunding*

On January 15, 2013, the District issued \$1,830,000 in unlimited tax refunding bonds with an interest rate of 1.05%. The proceeds were used to advance refund \$2,425,000 of outstanding 2003 unlimited tax refunding bonds which had interest rates ranging from 3.125% to 3.40%. The net proceeds of \$1,830,000 plus an additional \$655,043 in District funds, less issuance costs of \$26,422 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the 2003 unlimited tax refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The advance refunding of the 2003 bonds reduced the total debt service payments over 4 years by \$92,402. The present value of the saving from cash flow, \$89,627, less prior funds on hand of \$25,000, resulted in net present value savings of \$64,627.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 6 – ADVANCE REFUNDING OF DEBT (CONTINUED)

#### *Prior Year Defeasance of Debt*

In prior years, the District defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt payments on those bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2018, \$0 relating to 2009A Refunding of 1998A Series of bonds defeased in prior years remained outstanding. In addition, 2013 Revenue Refunding Bonds of 2001 Revenue Notes in the amount of \$490,000, remain outstanding at year-end. At June 30, 2018, \$490,000 in bonds and notes outstanding were considered defeased.

### NOTE 7 – LONG-TERM DEBT

The District issues General Obligation and Capital Appreciation bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation and Capital Appreciation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a schedule of the open bond series at the beginning of the fiscal year:

| Bond Series                         | Interest Rates | Payable At                         |
|-------------------------------------|----------------|------------------------------------|
| 2007 General Obligation             | 3.15-4.00%     | JP Morgan Chase, Texas             |
| 2009 A General Obligation Refunding | 3.75%          | Wells Fargo Bank NA, Austin, Texas |
| 2009 General Obligation             | 1.70-5.05%     | Wells Fargo Bank NA, Austin, Texas |
| 2012 Capital Appreciation           | 1.20-5.30%     | N/A Zero Coupon Bonds              |
| 2013 Revenue Refunding              | 1.86%          | Bank of Texas, Houston, Texas      |

With the exception of the revenue refunding bonds, bonds are payable from the proceeds of ad valorem taxes levied on all property subject to taxation in the District without limit as to rate or amount with no revenue pledge. Payment of the principal and interest on the bonds when due is guaranteed by a municipal bond insurance policy issued with the delivery of the bonds by MBIA Insurance Corporation. The revenue refunding bonds are payable from the District's revenues and ad valorem taxes may not be used for their repayment.

Annual debt service requirements to maturity for the bonds are as follows:

| Due During<br>Fiscal Year<br>Ended | Bonds                |                      | Revenue Note         |                     | Total                | Total                |
|------------------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
|                                    | Principal            | Interest             | Principal            | Interest            | Principal            | Interest             |
| 2019                               | \$ 1,336,767         | \$ 967,552           | \$ 480,000           | \$ 368,997          | \$ 1,816,767         | \$ 1,336,549         |
| 2020                               | 1,338,590            | 1,008,330            | 490,000              | 357,958             | 1,828,590            | 1,366,288            |
| 2021                               | 1,305,089            | 1,031,099            | 540,000              | 345,058             | 1,845,089            | 1,376,157            |
| 2022                               | 1,504,309            | 714,246              | 710,000              | 327,920             | 2,214,309            | 1,042,166            |
| 2023                               | 1,512,516            | 728,676              | 730,000              | 306,487             | 2,242,516            | 1,035,163            |
| 2024-2028                          | 7,764,278            | 3,789,365            | 4,055,000            | 1,137,365           | 11,819,278           | 4,926,730            |
| 2029-2033                          | 6,483,506            | 5,658,491            | 3,835,000            | 315,563             | 10,318,506           | 5,974,054            |
| 2034-2038                          | 3,748,239            | 9,011,761            | -                    | -                   | 3,748,239            | 9,011,761            |
| <b>Total</b>                       | <b>\$ 24,993,294</b> | <b>\$ 22,909,520</b> | <b>\$ 10,840,000</b> | <b>\$ 3,159,348</b> | <b>\$ 35,833,294</b> | <b>\$ 26,068,868</b> |

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 7 – LONG-TERM DEBT (CONTINUED)

#### Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

| Bonds Payable:                      | Interest Rate | Amounts at Original Issue | Beginning Balance    | Additions           | Retirements           | Ending Balance       | Due Within One Year |
|-------------------------------------|---------------|---------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| <b>General Obligation</b>           |               |                           |                      |                     |                       |                      |                     |
| 2007                                | 3.15%-4.00%   | \$ 2,500,000              | \$ 1,705,000         | \$ -                | \$ (115,000)          | \$ 1,590,000         | \$ 120,000          |
| 2009                                | 1.70%-5.05%   | 11,115,000                | 10,065,000           | -                   | (175,000)             | 9,890,000            | 580,000             |
| 2009A Refunding                     | 3.75%         | 2,360,000                 | 950,000              | -                   | (950,000)             | -                    | -                   |
| <b>Revenue Bonds</b>                |               |                           |                      |                     |                       |                      |                     |
| 2013 Refunding                      | 1.86%         | 1,230,000                 | 625,000              | -                   | (160,000)             | 465,000              | 165,000             |
| <b>Capital Appreciation</b>         |               |                           |                      |                     |                       |                      |                     |
| 2012                                | 1.20%-5.30%   | 13,999,994                | 13,048,294           | -                   | -                     | 13,048,294           | 471,767             |
| <b>Total Bonded Debt</b>            |               |                           | 26,393,294           | -                   | (1,400,000)           | 24,993,294           | 1,336,767           |
| <b>Accreted Interest Payable</b>    |               |                           |                      |                     |                       |                      |                     |
| 2012 Unlimited Tax Bonds            |               | -                         | 4,472,973            | 780,269             | -                     | 5,253,242            | 448,233             |
| <b>Notes Payable</b>                |               |                           |                      |                     |                       |                      |                     |
| 2011 Revenue Notes                  | 0.30%-4.10%   | 13,610,000                | 11,315,000           | -                   | (475,000)             | 10,840,000           | 480,000             |
| <b>Compensated Absences Payable</b> |               |                           |                      |                     |                       |                      |                     |
|                                     |               |                           | 144,173              | -                   | (61,833)              | 82,340               | -                   |
| <b>OPEB Liability</b>               |               |                           |                      |                     |                       |                      |                     |
|                                     |               |                           | 96,070               | -                   | (38,817)              | 57,253               | -                   |
| <b>Accrued Interest Expense</b>     |               |                           |                      |                     |                       |                      |                     |
|                                     |               |                           | 354,287              | 333,202             | (354,287)             | 333,202              | 333,202             |
| <b>Customer Deposits</b>            |               |                           |                      |                     |                       |                      |                     |
|                                     |               |                           | 358,390              | 71,210              | (66,795)              | 362,805              | -                   |
| <b>Total Long-Term Liabilities</b>  |               |                           | <u>\$ 43,134,187</u> | <u>\$ 1,184,681</u> | <u>\$ (2,396,732)</u> | <u>\$ 41,922,136</u> | <u>\$ 2,598,202</u> |

The Debt Service Fund on June 30, 2018 had combined cash, time deposits, and accrued interest amounting to \$697,679. The provisions of the bond resolutions relating to debt service requirements are being met and the cash allocated for these purposes is sufficient to meet upcoming debt service requirements for the remainder of the calendar year.

The funds in the General Funds revenue note payment accounts and the monthly deposits to them are sufficient to meet upcoming debt service requirements for the 2013 revenue refunding bonds and the 2011 revenue notes.

The required reserve account balance for the 2013 revenue refunding bonds is \$165,236 at June 30, 2018, and the actual account balance is \$168,256. The June 30, 2018, reserve requirement for the 2011 revenue note is \$953,382 and the account balance is \$1,012,325.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 8 -PENSION PLAN

#### *Plan Description*

Orange County Water Control & Improvement District No. 1 provides retirement, disability and death benefits for all of its full-time employees through participation in the statewide Texas County and District Retirement System (TCDRS), a nontraditional defined benefit pension plan. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 760 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-finance benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of those monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

At June 30, 2018, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 9         |
| Inactive employees entitled to but not yet receiving benefits    | 7         |
| Active employees   | <u>25</u> |
|  | <u>41</u> |



# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 8 – PENSION PLAN (CONTINUED)

#### *Funding Policy*

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually.

The employer contributed using the actuarially determined rate of 3.50% for the months of the accounting year in 2017 and 3.78% for the months of the accounting year in 2018. The contribution rate payable by the employee members for calendar years 2017 and 2018 is the rate of 7.00%, as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

#### *Annual Pension Cost*

For the employer's accounting year ended June 30, 2018, the annual pension cost for the TCDRS plan for its employees was \$70,610 and the actual contribution was \$52,609. The required contribution was determined as part of the December 31, 2017 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2017 included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 2.75 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll basis over a closed period with a layered approach.

#### *Net Pension Liability (Asset)*

|  | December 31,<br>2016 | December 31,<br>2017 |
|--|----------------------|----------------------|
| Total pension liability                                  | \$ 2,938,621         | \$ 3,245,597         |
| Fiduciary net position                                   | 2,958,823            | 3,415,209            |
| Net pension liability / (asset)                          | \$ (20,202)          | \$ (169,612)         |
| Fiduciary net position as a % of total pension liability | 100.69%              | 105.23%              |
| Pensionable covered payroll <sup>(1)</sup>               | \$ 1,235,678         | \$ 1,360,927         |
| Net pension liability as a % of covered payroll          | -1.63%               | -12.46%              |

<sup>(1)</sup> Payroll is calculated based on contributions as reported to TCDRS.

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 – PENSION PLAN (CONTINUED)**

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

***Discount Rate***

|   | <u>December 31,<br/>2016</u> | <u>December 31,<br/>2017</u> |
|---|------------------------------|------------------------------|
| Discount rate <sup>(2)</sup>  | 8.10%                        | 8.10%                        |
| Long-term expected rate of return,<br>net of investment expenses <sup>(2)</sup> | 8.10%                        | 8.10%                        |
| Municipal bond rate <sup>(3)</sup>  | Does not apply               | Does not apply               |

<sup>(2)</sup> This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses required by GASB 68.

<sup>(3)</sup> The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

***Other Key Actuarial Assumptions***

Updated mortality assumptions were reflected in 2017. All other actuarial assumptions that determined the total pension liability as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

|                  | <u>Beginning Date</u> | <u>Ending Date</u> |
|------------------|-----------------------|--------------------|
| Valuation date   | December 31, 2016     | December 31, 2017  |
| Measurement date | December 31, 2016     | December 31, 2017  |
| Reporting date   | July 1, 2017          | June 30, 2018      |

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – PENSION PLAN (CONTINUED)

#### *Actuarial Methods and Assumptions Used for GASB Calculations*

|   |   |
|---|---|
| Valuation Timing                                    | Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which contributions are reported.   |
| Actuarial Cost Method                               | Entry Age Normal <sup>(1)</sup>   |
| Amortization Method                                 |   |
| Recognition of economic/demographic gains or losses | Straight-Line amortization over Expected Working Life   |
| Recognition of assumptions changes or inputs        | Straight-Line amortization over Expected Working Life   |
| Asset Valuation Method                              |   |
| Smoothing period                                    | 5 years   |
| Recognition method                                  | Non-asymptotic  |
| Corridor  | None  |
| Inflation   | 2.8%  |
| Salary Increases                                    | Varies by age and service. 4.9% average over career including inflation.  |
| Investment Rate of Return                           | 8.10%   |
| Cost-of-Living Adjustments                          | Cost-of-Living Adjustments for Orange County Water Control and Improvement District #1 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation. |
| Retirement Age                                      | 60 and above  |
| Mortality   | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.   |

<sup>(1)</sup> Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

### NOTE 8 - PENSION PLAN (CONTINUED)

#### *Long-term Expected Rate of Return*

The Long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2018 information for a 10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.

| Asset Class                        | Benchmark   | Target Allocation <sup>(1)</sup> | Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup> |
|------------------------------------|---|----------------------------------|---|
| US Equities                        | Dow Jones U.S. Total Stock Market Index   | 11.50%                           | 4.55%   |
| Private Equity                     | Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup> | 16.00%                           | 7.55%   |
| Global Equities                    | MSCI World (net) Index  | 1.50%                            | 4.85%   |
| Int'l Equities - Developed Markets | MSCI World Ex USA (net) index   | 11.00%                           | 4.55%   |
| Int'l Equities - Emerging Markets  | MSCI Emerging Markets (net) Index   | 8.00%                            | 5.55%   |
| Investment - Grade Bonds           | Bloomberg Barclays U.S. Aggregate Bond Index                                      | 3.00%                            | 0.75%   |
| Strategic Credit                   | FTSE High-Yield Cash-Pay Capped Index   | 8.00%                            | 4.12%   |
| Direct Lending                     | S&P/LSTA Leveraged Loan Index   | 10.00%                           | 8.06%   |
| Distressed Debt                    | Cambridge Assoc. Distressed Securities Index <sup>(4)</sup>                       | 2.00%                            | 6.30%   |
| REIT Equities                      | 67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index              | 2.00%                            | 4.05%   |
| Master Limited Partnership (MLPs)  | Alerian MLP Index   | 3.00%                            | 6.00%   |
| Private Real Estate Partnerships   | Cambridge Associates Real Estate Index <sup>(5)</sup>                             | 6.00%                            | 6.25%   |
| Hedge Funds                        | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index                    | 18.00%                           | 4.10%   |

<sup>(1)</sup> Target asset allocation adopted at the April 2018 TCDRS Board Meeting.

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 - PENSION PLAN (CONTINUED)**

***Changes in Net Pension Liability/ (Asset)***

|  | Total Pension<br>Liability<br><u>(a)</u> | Fiduciary<br>Net Position<br><u>(b)</u> | Net Pension<br>Liability (Asset)<br><u>(a) - (b)</u> |
|--|--|---|--|
| Balances as of December 31, 2016                   | \$ 2,938,621                             | \$ 2,958,823                            | \$ (20,202)  |
| Changes for the year:                              |  |   |  |
| Service Cost                                       | 124,504                                  | -                                       | 124,504  |
| Interest on total pension liability <sup>(1)</sup> | 243,472                                  | -                                       | 243,472  |
| Effect of plan changes <sup>(2)</sup>              | -  | -                                       | -  |
| Effect of economic/demographic gains or losses     | 40,659                                   | -                                       | 40,659   |
| Effect of assumptions changes or inputs            | 15,212                                   | -                                       | 15,212   |
| Refund of contributions                            | -  | -                                       | -  |
| Benefit payments                                   | (116,871)                                | (116,871)                               | -  |
| Administrative expenses                            | -  | (2,271)                                 | 2,271  |
| Member contributions                               | -  | 95,265                                  | (95,265)   |
| Net Investment income                              | -  | 432,303                                 | (432,303)  |
| Employer contributions                             | -  | 47,633                                  | (47,633)   |
| Other <sup>(3)</sup>                               | -  | 327                                     | (327)  |
|  | <u>\$ 3,245,597</u>                      | <u>\$ 3,415,209</u>                     | <u>\$ (169,612)</u>                                  |
| Balances as of December 31, 2017                   | \$ 3,245,597                             | \$ 3,415,209                            | \$ (169,612)   |

<sup>(1)</sup> Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

<sup>(2)</sup> No plan changes valued.

<sup>(3)</sup> Relates to allocation of system-wide items.

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 8 - PENSION PLAN (CONTINUED)**

*Sensitivity Analysis*

The following presents the net pension liability of the county/district, calculated using the discount rate of 8.10%, as well as what the Orange County Water Control & Improvement District No. 1 net pension liability would be if it were calculated using a discount rate that is 1 percent point lower (7.10%) or 1 percent higher (9.10)% than the current rate.

|                                 | 1% Decrease<br>7.10% | Current<br>Discount Rate<br>8.10% | 1% Increase<br>9.10% |
|---------------------------------|----------------------|-----------------------------------|----------------------|
| Total pension liability         | \$ 3,667,945         | \$ 3,245,597                      | \$ 2,887,912         |
| Fiduciary net position          | 3,415,209            | 3,415,209                         | 3,415,209            |
| Net pension liability / (asset) | <u>\$ 252,736</u>    | <u>\$ (169,612)</u>               | <u>\$ (527,297)</u>  |

*Pension Expense/ (Income)*

|   | January 1, 2017 to<br>December 31, 2017 |
|---|---|
| Service cost  | \$ 124,504                              |
| Interest on total pension liability <sup>(1)</sup>    | 243,472                                 |
| Effect on plan changes                                | -                                       |
| Administrative expenses                               | 2,271                                   |
| Member contributions                                  | (95,265)                                |
| Expected investment return net of investment expenses | (240,621)                               |
| Recognition of deferred inflows/outflows of resources |   |
| Recognition of economic/demographic gains or losses   | 14,777                                  |
| Recognition of assumption changes or inputs           | 6,016                                   |
| Recognition of investment gains or losses             | 15,782                                  |
| Other <sup>(2)</sup>                                  | <u>(326)</u>                            |
| Pension expense / (income)                            | <u>\$ 70,610</u>                        |

<sup>(1)</sup> Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

<sup>(2)</sup> Relates to allocation of system-wide items.

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 –PENSION PLAN (CONTINUED)**

*Deferred Inflows/ Outflows of Resources*

As of June 30, 2018, the deferred inflow and outflow resources are as follows:

|  | <u>Deferred<br/>Inflows of<br/>Resources</u> | <u>Deferred<br/>Outflows of<br/>Resources</u> |
|--|--|---|
| Differences between expected and actual experience   | \$ 917                                       | \$ 78,474                                     |
| Changes of assumption                                | -  | 28,411  |
| Net difference between projected and actual earnings | 47,576                                       | -   |
| Contributions made subsequent to measurement date    | n/a  | 26,207  |
|  | <u>\$ 48,493</u>                             | <u>\$ 133,092</u>                             |

Amounts currently reported as deferred outflows of resources and deferred inflow of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

| Year ended December 31: |           |
|-------------------------|-----------|
| 2018                    | \$ 36,576 |
| 2019                    | 29,736    |
| 2020                    | (13,170)  |
| 2021                    | (18,727)  |
| 2022                    | 15,996    |
| Thereafter              | 7,981     |

**NOTE 9 –OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosure, as part of the basic financial statements, of certain information concerning individual funds including the following:

In the General Fund, actual expenditures exceeded the budget by immaterial amounts as follows:

|                                      | <u>Amount</u>       | <u>Percent of<br/>Line Item</u> |
|--------------------------------------|---------------------|---------------------------------|
| Water and Sewer Service Maintenance  | \$ (52,060)         | 7.0%                            |
| Salaries, Benefits and Payroll Taxes | (104,544)           | 5.9%                            |
| Professional Fees                    | (399)               | 0.6%                            |
| Other                                | (3,524)             | 10.1%                           |
| Capital Outlay                       | (47,437)            | 79.9%                           |
| Line item with positive savings      | 31,851              | 0.0%                            |
| Total Budget                         | <u>\$ (176,113)</u> | 4.4%                            |

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 10 – COMMITMENTS AND CONTINGENCIES

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District obtains insurance coverage through commercial insurance carriers. Workers' compensation and auto liability insurance are covered through participation in a public entity risk pool, where risk is transferred to the pool within policy limits purchased. There have been no significant reductions in insurance coverage from the preceding year and settlement amounts have not exceeded insurance coverage for the current year.

### NOTE 11 – SYSTEM REPAIRS

On August 28-29, 2017, the Orange County Water Control and Improvement District No. 1's physical plant, its supporting infrastructure and its customer/taxpayer base were negatively impacted by the record rainfalls of Tropical Storm Harvey. In an effort to expedite necessary repairs to the District's assets, the District entered into an agreement with its insurance provider to manage the repair and recovery efforts of assets covered by insurance. The insurance company has procured and paid contractors to repair and restore damaged assets. As of June 30, 2018, the insurance company had paid directly to contractors approximately \$3 million dollars. The payments and related expenditures are not reflected in these financial statements.



**REQUIRED SUPPLEMENTARY INFORMATION**

# ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

### EXHIBIT G-1

|   | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | Year Ended<br>December 31,<br>2015 | Year Ended<br>December 31,<br>2014 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>Total Pension Liability</b>                                      |                                    |                                    |                                    |                                    |
| Service cost  | \$ 124,504                         | \$ 122,477                         | \$ 101,557                         | \$ 103,617                         |
| Interest on total pension liability                                 | 243,472                            | 215,074                            | 197,203                            | 180,582                            |
| Effect of plan changes  | -                                  | -                                  | (17,589)                           | -                                  |
| Effect of assumption changes or inputs                              | 15,212                             | 56,100                             | 26,900                             | -                                  |
| Effect of economic/demographic<br>(gains) or losses                 | 40,659                             | -                                  | (1,604)                            | 8,286                              |
| Benefit payments/refunds of contributions                           | <u>(116,871)</u>                   | <u>(98,503)</u>                    | <u>(84,829)</u>                    | <u>(96,633)</u>                    |
| <b>Net change in total pension liability</b>                        | 306,976                            | 295,148                            | 221,638                            | 195,852                            |
| <b>Total pension liability, beginning</b>                           | <u>2,938,621</u>                   | <u>2,643,473</u>                   | <u>2,421,835</u>                   | <u>2,225,983</u>                   |
| <b>Total pension liability, ending (a)</b>                          | <u>3,245,597</u>                   | <u>2,938,621</u>                   | <u>2,643,473</u>                   | <u>2,421,835</u>                   |
| <b>Fiduciary Net Position</b>                                       |                                    |                                    |                                    |                                    |
| Employer contributions  | 47,633                             | 50,942                             | 45,340                             | 49,669                             |
| Member contributions  | 95,265                             | 114,310                            | 74,328                             | 75,419                             |
| Investment income net of investment<br>expenses                     | 432,303                            | 197,926                            | 1,695                              | 165,930                            |
| Benefit payments/refunds of contributions                           | (116,871)                          | (98,503)                           | (84,829)                           | (96,633)                           |
| Administrative expenses   | (2,271)                            | (2,150)                            | (1,909)                            | (1,952)                            |
| Other   | <u>327</u>                         | <u>28,507</u>                      | <u>6,726</u>                       | <u>664</u>                         |
| <b>Net change in fiduciary net position</b>                         | 456,386                            | 291,032                            | 41,351                             | 193,097                            |
| <b>Fiduciary net position, beginning</b>                            | <u>2,958,823</u>                   | <u>2,667,791</u>                   | <u>2,626,440</u>                   | <u>2,433,343</u>                   |
| <b>Fiduciary net position, ending (b)</b>                           | <u>3,415,209</u>                   | <u>2,958,823</u>                   | <u>2,667,791</u>                   | <u>2,626,440</u>                   |
| <b>Net pension liability / (asset), ending = (a) - (b)</b>          | <u>\$ (169,612)</u>                | <u>\$ (20,202)</u>                 | <u>\$ (24,318)</u>                 | <u>\$ (204,605)</u>                |
| <b>Fiduciary net position as a % of total<br/>pension liability</b> | 105.23%                            | 100.69%                            | 100.92%                            | 108.45%                            |
| <b>Pensionable covered payroll</b>                                  | \$ 1,360,927                       | \$ 1,235,678                       | \$ 1,061,834                       | \$ 1,077,414                       |
| <b>Net pension liability as a % of covered payroll</b>              | -12.46%                            | -1.63%                             | -2.29%                             | -18.99%                            |

**ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT G-2**

| <u>Year Ending<br/>December 31,</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Employer<br/>Contribution</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Pensionable<br/>Covered<br/>Payroll<sup>(1)</sup></u> | <u>Actual<br/>Contribution<br/>as a % of<br/>Covered Payroll</u> |
|-------------------------------------|--|---|---|--|--|
| 2008                                | \$ 10,842  | \$ 10,842                                   | \$ -  | \$ 737,576   | 1.5%   |
| 2009                                | 15,124   | 15,124                                      | -   | 844,942  | 1.8%   |
| 2010                                | 32,191   | 32,191                                      | -   | 972,546  | 3.3%   |
| 2011                                | 36,287   | 36,287                                      | -   | 1,045,735  | 3.5%   |
| 2012                                | 42,031   | 42,031                                      | -   | 1,091,718  | 3.8%   |
| 2013                                | 47,052   | 47,052                                      | -   | 1,131,051  | 4.2%   |
| 2014                                | 49,669   | 49,669                                      | -   | 1,077,414  | 4.6%   |
| 2015                                | 45,340   | 45,340                                      | -   | 1,061,834  | 4.3%   |
| 2016                                | 50,910   | 50,942                                      | (32)  | 1,235,678  | 4.1%   |
| 2017                                | 47,633   | 47,633                                      | -   | 1,360,927  | 3.5%   |

*(1) Payroll is calculated based on contribution as reported to TCDRS*

ORANGE COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

|   | Budgeted Amounts    |                     | Actual<br>Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|---------------------|---------------------|-----------------------------------|--|
|   | Original            | Final               |                                   |  |
| <b>REVENUES:</b>  |                     |                     |                                   |  |
| Water Services  | \$ 1,420,000        | \$ 1,420,000        | \$ 1,426,943                      | \$ 6,943   |
| Sewer Services  | 1,450,000           | 1,450,000           | 1,282,234                         | (167,766)  |
| Other Service Fees  | 179,500             | 179,500             | 101,148                           | (78,352)   |
| Investment Earnings                                       | 10,000              | 10,000              | 29,319                            | 19,319   |
| Revenue Note Collections                                  | 1,030,000           | 1,030,000           | 970,067                           | (59,933)   |
| Other Revenue   | 106,700             | 106,700             | 138,894                           | 32,194   |
| Total Revenues  | <u>4,196,200</u>    | <u>4,196,200</u>    | <u>3,948,605</u>                  | <u>(247,595)</u>   |
| <b>EXPENDITURES:</b>                                      |                     |                     |                                   |  |
| Current:  |                     |                     |                                   |  |
| General Government:                                       |                     |                     |                                   |  |
| Water and Sewer Service                                   | 736,600             | 736,600             | 788,660                           | (52,060)   |
| Salaries, Benefits and Payroll Taxes                      | 1,761,000           | 1,761,000           | 1,865,544                         | (104,544)  |
| Professional Fees   | 66,500              | 66,500              | 66,899                            | (399)  |
| Administrative Expenses                                   | 242,000             | 242,000             | 210,510                           | 31,490   |
| Other   | 34,800              | 34,800              | 38,324                            | (3,524)  |
| Debt Service:   |                     |                     |                                   |  |
| Bond Principal  | 635,000             | 635,000             | 635,000                           | -  |
| Bond Interest and Fiscal Charges                          | 391,000             | 391,000             | 390,639                           | 361  |
| Capital Outlay:   |                     |                     |                                   |  |
| Capital Outlay  | 59,300              | 59,300              | 106,737                           | (47,437)   |
| Total Expenditures  | <u>3,926,200</u>    | <u>3,926,200</u>    | <u>4,102,313</u>                  | <u>(176,113)</u>   |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>270,000</u>      | <u>270,000</u>      | <u>(153,708)</u>                  | <u>(423,708)</u>   |
| <b>OTHER FINANCING SOURCES (USES):</b>                    |                     |                     |                                   |  |
| Transfers Out (Use)                                       | (100,000)           | (100,000)           | (108,000)                         | (8,000)  |
| Total Other Financing Sources (Uses)                      | <u>(100,000)</u>    | <u>(100,000)</u>    | <u>(108,000)</u>                  | <u>(8,000)</u>   |
| Net Change  | 170,000             | 170,000             | (261,708)                         | (431,708)  |
| Fund Balance - July 1 (Beginning)                         | <u>3,431,847</u>    | <u>3,431,847</u>    | <u>3,431,847</u>                  | <u>-</u>   |
| Fund Balance - June 30 (Ending)                           | <u>\$ 3,601,847</u> | <u>\$ 3,601,847</u> | <u>\$ 3,170,139</u>               | <u>\$ (431,708)</u>  |

**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100





Financial Advisory Services  
Provided By:

