

OFFICIAL STATEMENT DATED AUGUST 14, 2019

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The Bonds are NOT designated "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Not Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

S&P Global Ratings (AGM Insured) "AA/Stable"
See "MUNICIPAL BOND INSURANCE" and "RATING"

\$4,100,000

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

(A Political Subdivision of the State of Texas Located in Hays County and Travis County)

UNLIMITED TAX ROAD BONDS

SERIES 2019A

Interest accrues from: September 1, 2019

Due: September 1, as shown on inside cover

The \$4,100,000 Unlimited Tax Road Bonds, Series 2019A (the "Bonds"), are obligations of Sunfield Municipal Utility District No. 3 (the "District") and are not obligations of the State of Texas; Hays County, Texas; Travis County, Texas; the City of Buda, Texas; or any entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Hays County, Texas; Travis County, Texas, the City of Buda, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Zions Bancorporation, National Association, Houston, Texas, or any successor paying agent/registrant (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System."

Principal of the Bonds is payable to the registered owner(s) of the Bonds (the "Registered Owner(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds is payable on March 1, 2020, and each September 1 and March 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Registered Owner, such interest is payable by check mailed to such persons or by other means acceptable to such person and the Paying Agent/Registrar. The Bonds are issuable in denominations of \$5,000 of principal or any integral multiple thereof in fully registered form only.

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on inside cover.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. Investment in the Bonds is subject to special risk factors described herein. See "RISK FACTORS."

The Bonds are offered when, as and if issued by the District and accepted by the winning bidder for the Bonds (the "Initial Purchaser"), subject among other things to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by The Muller Law Group, PLLC, Sugar Land, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about September 12, 2019. See "LEGAL MATTERS."

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$3,400,000 Serial Bonds

| Due (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number 867342 (c) | Due (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number 867342 (c) |
|----------------------|---------------------|------------------|------------------------------------|-------------------------------|----------------------|---------------------|------------------|------------------------------------|-------------------------------|
| 2020 | \$115,000 | 4.250 | 1.250 | EC7 | 2031 (b) | 165,000 | 2.000 | 2.150 | EP8 |
| 2021 | 120,000 | 4.500 | 1.300 | ED5 | 2032 (b) | \$170,000 | 2.000 | 2.250 | EQ6 |
| 2022 | 125,000 | 4.500 | 1.350 | EE3 | 2033 (b) | 175,000 | 2.125 | 2.350 | ER4 |
| 2023 | 125,000 | 4.500 | 1.400 | EF0 | 2034 (b) | 180,000 | 2.250 | 2.450 | ES2 |
| 2024 | 130,000 | 4.500 | 1.450 | EG8 | 2035 (b) | 185,000 | 2.375 | 2.550 | ET0 |
| 2025 (b) | 135,000 | 3.250 | 1.550 | EH6 | 2036 (b) | 190,000 | 2.500 | 2.650 | EU7 |
| 2026 (b) | 140,000 | 2.000 | 1.650 | EJ2 | 2037 (b) | 200,000 | 2.500 | 2.700 | EV5 |
| 2027 (b) | 145,000 | 2.000 | 1.800 | EK9 | 2038 (b) | 205,000 | 2.500 | 2.750 | EW3 |
| 2028 (b) | 150,000 | 2.000 | 1.900 | EL7 | 2039 (b) | 210,000 | 2.625 | 2.800 | EX1 |
| 2029 (b) | 155,000 | 2.000 | 2.000 | EM5 | 2040 (b) | 220,000 | 2.625 | 2.850 | EY9 |
| 2030 (b) | 160,000 | 2.000 | 2.050 | EN3 | | | | | |

\$700,000 Term Bonds

\$700,000 Term Bonds Due September 1, 2043 (b)(d), Interest Rate: 2.750% (Price: \$96.579) (a), CUSIP No. 867342 FB8 (c)

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- (a) The initial reoffering yield has been provided by the Initial Purchaser and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from September 1, 2019, is to be added to the price.
- (b) The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on September 1, 2024, or any date thereafter at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions."
- (c) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under "THE BONDS – Redemption Provisions – Mandatory Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other 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, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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.

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Robert W. Baird & Co. Incorporated, 1331 Lamar Street, Suite 1360, Houston, Texas 77010, the Financial Advisor to the District.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in the Official Statement in accordance with, and as part of, its responsibility 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.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or that they will be realized. Any information and expressions 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 any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "SOURCES OF INFORMATION – Updating the Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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 final official statement for any purposes.

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 "MUNICIPAL BOND INSURANCE" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the inside cover page of this Official Statement, at a price of 97.000000% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.749108%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

The District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Other than as described in the Official Notice of Sale, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND INSURANCE AND RATING

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("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 B" 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 June 27, 2019, 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 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 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 June 30, 2019:

The policyholders’ surplus of AGM was approximately \$2,530 million.

The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$1,082 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 \$1,853 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 documents 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:

- (i) 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);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 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 “MUNICIPAL 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 this heading “MUNICIPAL BOND INSURANCE.”

RATING

The Bonds are expected to receive an insured rating of “AA” (stable outlook) from S&P solely in reliance upon the issuance of the Policy issued by AGM at the time of the delivery of the Bonds. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols “AAA” (the highest rating) through “D” (the lowest rating).

A security rating is not a recommendation to buy, sell or hold securities. Furthermore, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the rating of S&P.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

- The IssuerSunfield Municipal Utility District No. 3 (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ”) as Winfield Municipal Utility District No. 3 on June 27, 2005, and by subsequent order of the TCEQ on April 10, 2006, the name of the District was changed to Sunfield Municipal Utility District No. 3. The District is located wholly in the extraterritorial jurisdiction of the City of Buda, Texas, in Hays County, Texas, and Travis County, Texas, approximately 15 miles south of the City of Austin, Texas. The District is part of the approximately 2,790-acre, master-planned community known as “Sunfield.” See “THE DISTRICT.”

- The IssueThe District is issuing its \$4,100,000 Unlimited Tax Road Bonds, Series 2019A (the “Bonds”). The Bonds mature on September 1 of each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds accrues from September 1, 2019, and is payable March 1, 2020, and on each September 1 and March 1 thereafter until maturity or prior redemption. See “THE BONDS.”

- Redemption.....The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See “THE BONDS – Redemption Provisions – *Optional Redemption.*” The Bonds maturing on September 1, 2043, are term bonds that are also subject to the mandatory redemption provisions set out herein under “THE BONDS – Redemption Provisions – *Mandatory Redemption.*”

- Source of PaymentPrincipal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Hays County, Texas; Travis County, Texas; the City of Buda, Texas; or any entity other than the District. See “THE BONDS – Source of Payment.”

- Payment Record.....The District has never defaulted on the timely payment of principal and interest on its bonded indebtedness.

- Outstanding BondsThe District has previously issued four series of unlimited tax road bonds in the aggregate principal amount of \$16,825,000, of which \$16,500,000 principal amount will remain outstanding as of September 2, 2019 (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”

- Authority for Issuance.....The Bonds are issued pursuant to (i) the order of the TCEQ creating the District, (ii) an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the “Bond Order”), (iii)

the Texas Constitution, particularly Article III, Section 52, and general laws of the State of Texas, particularly Chapter 8201, Texas Special District Local Laws Code, and Chapters 49 and 54, Texas Water Code, as amended, and (iv) the election held within the District referenced below.

At an election held within the District on September 22, 2007, voters of the District authorized the District's issuance of an aggregate \$57,825,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District. The Bonds represent the District's fifth series of unlimited tax road bonds to be issued from such voted authorization, and, following the issuance of the Bonds, \$36,900,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District will remain authorized but unissued. See "THE BONDS – Authority for Issuance," and "– Issuance of Additional Debt."

- Use of Proceeds Proceeds from the sale of the Bonds will be used to reimburse the Developer (herein defined) for the road improvements and related engineering costs as shown herein under "THE BONDS – Use and Distribution of Bond Proceeds." Additionally, proceeds from the Bonds will be used to pay six (6) months of capitalized interest on the Bonds and certain costs associated with the issuance of the Bonds. See "THE BONDS – Use and Distribution of Bond Proceeds."
- Not Qualified Tax-Exempt Obligations The District did not designate the Bonds as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Not Qualified Tax-Exempt Obligations."
- Municipal Bond Insurance Assured Guaranty Municipal Corp. (AGM). See "MUNICIPAL BOND INSURANCE."
- Ratings..... S&P Global Ratings (AGM Insured): "AA/Stable." See "RATING."
- Legal Opinion Coats Rose, P.C., Dallas, Texas, Bond Counsel. See "LEGAL MATTERS."
- Disclosure Counsel The Muller Law Group, PLLC, Sugar Land, Texas.
- Financial Advisor..... Robert W. Baird & Co. Incorporated, Houston, Texas.
- Paying Agent/Registrar Zions Bancorporation, National Association, Houston, Texas.

THE DISTRICT

- Description The District is a political subdivision of the State of Texas located wholly in the extraterritorial jurisdiction of the City of Buda, Texas, in Hays and Travis Counties, Texas, approximately 15 miles south of the City of Austin, Texas. It is bordered on the north by Turnersville Road, on the south by Farm-to-Market Road 2001. The District is located in the Hays Consolidated Independent School District. See "THE DISTRICT."
- Development Within the District The District contains approximately 864.06 total acres of land. To date, residential development in the District includes approximately 1,161 single-family lots within the following subdivisions: Sunfield Phase 2, Sections 2, 3, 5, 6, 7, 8, 9, 10, and 11, and Sunfield Phase 3, Sections 2, 3, 4, and 5A. As of June 1, 2019, single-family residential development within the District included

approximately 544 complete homes (approximately 505 occupied, 22 unoccupied, and 17 model homes), approximately 130 homes under construction, and approximately 487 vacant lots available for additional home construction. In addition, the following residential subdivisions are currently under construction: Sunfield Phase 2, Section 12, is under construction for the development of approximately 136 single-family lots; Sunfield Phase 3, Section 5B, is under construction for development of approximately 121 single-family lots; and Sunfield Phase 3, Section 5C, is under construction for development of approximately 144 single-family lots.

The subdivisions referenced above encompass approximately 353.52 acres within the District. The remaining land in the District consists of approximately 4.13 acres for multi-family purposes, approximately 451.41 undeveloped but developable acres and approximately 55.00 undevelopable acres. See "DEVELOPMENT STATUS OF THE DISTRICT" and "SUNFIELD."

Sunfield.....The District is part of the approximately 2,790-acre, master-planned community known as "Sunfield." Sunfield is located along the Interstate 35 corridor and includes amenities such as an Olympic lap pool, pavilion, splash pool, dog park, fishing ponds, and hike and bike trails.

Sunfield is made up of the District and three other municipal utility districts: Sunfield Municipal Utility District No. 1 ("SMUD No. 1"), Sunfield Municipal Utility District No. 2 ("SMUD No. 2"), and Sunfield Municipal Utility District No. 4 (which is referred to herein as "SMUD No. 4" in its capacity as a Sunfield District or the "Master District" in its capacity as the Master District). SMUD No. 1, SMUD No. 2, the District, and SMUD No. 4 are collectively referred to herein as the "Sunfield Districts." See "SUNFIELD."

Status of Development within Sunfield.....Currently, development within Sunfield has occurred within the District and SMUD No. 1. In SMUD No. 1, U.S. Foods, Inc., a foodservicing distribution for restaurants, hospital facilities, governmental operations and educational institutions, purchased a 40.17-acre site on which it has constructed a 277,000 square-foot office, dry food storage, refrigerated food storage, and freezer food storage facility and a 10,000 square-foot maintenance facility. Tractor Supply Company, a retail farm and ranch store chain, purchased approximately 3.82 acres on which it has constructed a 19,100 square foot store. SMUD No. 1 also contains a Burger King on 0.801 acres as well as a new Studio 6 hotel on 1.40 acres. The remaining commercial acreage in SMUD No. 1 is made up of 57.44 acres which entails developed commercial pads for future commercial sites plus 138.49 acres of commercial/retail land. Baylor Scott and White purchased 19.60 acres for the construction of a hospital and retail facility and is making an investment of at least \$35 million in land, buildings, equipment, inventory and other improvements necessary for a full medical facility. The hospital, which will be at least 70,000 square-feet, will also include a full-service emergency department, medical office space, retail pads, operating rooms, imaging and their facilities. The facility is expected to be open and operational by the fourth quarter of 2019. Exeter Property Group operating under the name of Exeter Buda

Land LP, purchased 36.78 acres and is currently developing 300,000 square feet of industrial space with plans to build an additional 300,000 square feet in phase II totaling more than 600,000 square feet within the development known as Sunfield. WAMSFTX's purchased 8 acres for the Sunfield Station athletic complex and will consist of a 30,000 square foot indoor multi-use sports complex and associated sports retail center with an estimated 60,000 square feet of building/retail space. The complex will primarily focus on indoor volleyball, but will also include basketball and other sports. The project estimates that each tournament at the facility will bring up to 1,500 visitors to the City of Buda, Texas, with that number estimated to increase as tournaments grow in size and frequency. Long-range projections indicate the annual visitor count to the facility could exceed 40,000. A convenience store site consisting of 1.40 acres was sold and will be located at the corner of Main Street and Campo Del Sol. It will include various convenience store products as well as beer and wine sales and gas facilities. AMP CNG purchased 1.733 acres and constructed a high pressure gas station that fuels all of the U.S. Foods transportation department. See "USE OF INFORMATION IN OFFICIAL STATEMENT" herein.

Multi-family development within SMUD No. 1 includes Tuscany Apartments (196 units on 13 acres) which are currently 100% leased and Huntington Senior Living Apartments (120 units on 5.81 acres) which are currently 100% leased. In February of 2019, SWBC, an apartment developer, closed on approximately 16.59 acres in Sunfield, of which approximately 4.13 acres are located within the District and the remaining located in SMUD No. 1. SWBC plans to construct an approximately 300 unit multi-family development within Sunfield.

Approximately 501.62 acres (1,981 lots) within Sunfield have been developed for single-family residential use. As of June 1, 2019, there were approximately 1,247 total complete homes (approximately 1,199 occupied, 25 unoccupied, and 23 model homes), approximately 176 homes under construction, and approximately 558 vacant developed lots. Sunfield also includes approximately 1,507.55 undeveloped but developable acres and approximately 468.63 undevelopable acres. See "SUNFIELD."

Developer/Principal Landowners The principal developer of land within the District is 2428 SF PH 1 LLC, a Texas limited liability company (the "Developer"), which is wholly owned by 2428 Partners, LLC. 2428 Partners, LLC is comprised of 2428 Management, LLC, general partner, and IHP Fund III, LLC, limited partner. The District is managed by Scarborough Sunfield, LLC, a third-party management company controlled by James R. Feagin and Ryan Burkhardt. The Developer and its related entities currently own approximately 578.65 acres in the District, 343 vacant developed lots in the District, 401 lots under development in the District, as well as approximately 1,557.60 acres in the remainder of Sunfield. See "THE DEVELOPER."

Homebuilders Within the District..... Homebuilders active within the District include Centex Homes, Castle Rock Homes, Gehan Homes, William Lyon Homes (formally

“RSI”), and Chesmar Homes Austin. Home prices range from \$200,000–\$395,000. See “THE DISTRICT.”

Regional Facilities The Master District is the municipal utility district that has contracted with the District and the other Sunfield Districts to extend regional water, sanitary sewer and drainage facilities to Sunfield (collectively, the “Master District Facilities”). The District lies within areas certificated to Goforth Special Utility District (“Goforth SUD”) for providing of retail water service which it does pursuant to agreements between Goforth SUD, the Master District, and the District. See “THE SYSTEM.”

Agreements with GBRA Wholesale water is provided to Sunfield by the Guadalupe-Blanco River Authority (“GBRA”). Water trunklines connecting the existing development within Sunfield to the GBRA waterlines have been constructed with monies advanced by the Developer. In 2004, the GBRA sold bonds and constructed a water line to the vicinity of Sunfield to serve the full development of the Sunfield Districts and other customers located in the vicinity of Sunfield. Each entity entitled to receive water service through such line is obligated to pay a portion of the debt service on such bonds. Initially, the Master District was obligated to pay approximately 34% of the debt service on such line. In addition to a pro-rata share of the debt service, the Master District is required to pay an annual water reservation fee. The annual water reservation fee and pro-rata share of debt service allocated to Sunfield are collectively referred to herein as the “GBRA Payment.” Effective February 15, 2012, the Sunfield Districts entered into an amended and restated non-standard water utility service agreement with Goforth SUD pursuant to which Goforth SUD will be the retail provider and will have the obligation to make a portion of the GBRA Payment for each permanent connection in Sunfield assumed by Goforth SUD. In addition, in 2015 and 2018, Goforth SUD contracted for the early transfer of 2,000,000 gallons per day (“gpd”) of water and assumed the obligation to make the GBRA Payment for such 2,000,000 gpd. For the fiscal year ending September 30, 2018, the GBRA Payment was approximately \$885,861. The GBRA Payment is estimated to be approximately \$528,313 for the fiscal year ending September 30, 2019, of which the District’s obligation is \$0. Each Sunfield District is responsible for its pro-rata share of the GBRA Payment based upon its projected ultimate living unit equivalents (“LUEs”). Such obligation is secured by such Sunfield District’s unlimited ad valorem taxing authority. Pursuant to the agreement with Goforth SUD, SMUD No. 1’s and the District’s obligation to GBRA has been assumed by Goforth SUD in conjunction with the early transfer of 2,000,000 gpd of water. The remaining GBRA Payment is the obligation of the District, SMUD No. 2 and SMUD No. 4 and is being made monthly by the Master District with monies advanced by the Developer. The Master District is current with all payment obligations. See “THE SYSTEM” and “RISK FACTORS.”

RISK FACTORS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD CAREFULLY REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “RISK FACTORS,” BEFORE MAKING AN INVESTMENT DECISION.

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

| | | |
|--|---------------------|-----|
| 2019 Taxable Assessed Valuation..... | \$151,217,369 | (a) |
| Estimated Valuation as of June 1, 2019 | \$174,041,000 | (b) |
| Direct Debt: | | |
| Outstanding Bonds (as of September 2, 2019) | \$ 16,500,000 | |
| The Bonds | <u>\$ 4,100,000</u> | |
| Total..... | \$ 20,600,000 | |
| Estimated Overlapping Debt | <u>\$ 9,869,244</u> | (c) |
| Total Direct and Estimated Overlapping Debt | \$ 30,469,244 | |
| Direct Debt Ratios: | | |
| Based on 2019 Taxable Assessed Valuation..... | 13.62 | % |
| Based on Estimated Valuation as of June 1, 2019 | 11.84 | % |
| Direct and Estimated Overlapping Debt Ratios: | | |
| Based on 2019 Taxable Assessed Valuation..... | 20.15 | % |
| Based on Estimated Valuation as of June 1, 2019 | 17.51 | % |
| Road Debt Service Fund Balance (as of July 16, 2019)..... | \$ 976,432 | (d) |
| Road Capital Projects Fund Balance (as of July 16, 2019) | \$ 11,486 | |
| Operating Fund Balance (as of July 16, 2019)..... | \$ 221,001 | |
| 2018 Tax Rate | | |
| Debt Service | \$ 0.775 | |
| Maintenance & Operation | <u>\$ 0.125</u> | |
| Total..... | \$ 0.900 | (e) |
| Average Annual Debt Service Requirement (2020–2043) | \$ 1,279,967 | (f) |
| Maximum Annual Debt Service Requirement (2042)..... | \$ 1,347,419 | (f) |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2020–2043) at 95% Tax Collections | | |
| Based on 2019 Taxable Assessed Valuation..... | \$ 0.90 | |
| Based on Estimated Valuation as of June 1, 2019 | \$ 0.78 | |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2042) at 95% Tax Collections | | |
| Based on 2019 Taxable Assessed Valuation..... | \$ 0.94 | |
| Based on Estimated Valuation as of June 1, 2019 | \$ 0.82 | |
| Single-Family Homes as of June 1, 2019 | 674 | (g) |
| District Population..... | 1,768 | (h) |

- (a) Represents the taxable amount of assessed valuation as of January 1, 2019, of taxable property in the District within Hays County, as provided by the Hays Central Appraisal District upon certification of the 2019 appraisal rolls. Such amount includes \$4,859,543 of taxable value, which is 90% of the total taxable value associated with properties that remain under review of the Hays County Appraisal Review Board as of certification for the 2019 tax year. Such amount does not include taxable value associated with taxable property located in the District within Travis County. For the 2018 tax year, the taxable value of such properties in Travis County was \$10,082. See "TAXING PROCEDURES" and "TAX DATA."
- (b) Provided by the Hays Central Appraisal District for information purposes only. This estimate reflects the addition of the taxable value of new construction within the District from January 1, 2019, to June 1, 2019. No taxes will be levied on this estimate. See "TAXING PROCEDURES" and "TAX DATA."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road Debt Service Fund. At the time of closing on the Bonds, six (6) months of capitalized interest and accrued interest will be deposited into the Road Debt Service Fund.
- (e) The Board of Directors of the District has authorized publication of a notice of public hearing to consider a tax rate for the 2019 tax year in the total amount of \$0.90 per \$100 of taxable assessed valuation.
- (f) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."
- (g) Includes approximately 544 completed single-family homes plus 130 homes under construction within the District as of June 1, 2019.
- (h) Based on 3.5 residents per each of the 505 occupied single-family homes in the District as of June 1, 2019.

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Sunfield Municipal Utility District No. 3 (the "District"), of its \$4,100,000 Unlimited Tax Road Bonds, Series 2019A (the "Bonds").

The Bonds are issued pursuant to (i) the order of the Texas Commission on Environmental Quality ("TCEQ") creating the District, (ii) the bond order ("Bond Order") adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds, (iii) the Texas Constitution, particularly Article III, Section 52, and general laws of the State of Texas, particularly Chapter 8201, Texas Special District Local Laws Code, and Chapters 49 and 54, Texas Water Code, as amended, and (iv) an election held by the District on September 22, 2007.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument. Copies of such documents may be obtained from the District at Coats Rose, P.C., 14755 Preston Road, Suite 600, Dallas, Texas 75254 upon payment of reasonable copying and distribution charges.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Hays County, Texas; Travis County, Texas; the City of Buda, Texas; or any political subdivision other than the District. The Bonds are secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Economic Factors Affecting Taxable Values and Tax Payments

The rate of development within the District is directly related to the vitality of the single-family and multi-family housing, commercial and industrial markets in the Austin, Texas, metropolitan area. The principal landowner within the District is 2428 SF PH 1 LLC, a Texas limited liability company (the "Developer"), which is wholly owned by 2428 Partners, LLC. See "THE DEVELOPER." The Developer's ability to successfully market property in the District can be affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of construction would restrict the growth of property values in the District. Although 531 single-family homes have been completed and another 143 single-family homes are under construction in the District as of June 1, 2019, the District cannot predict the pace or magnitude of future development, if any, in the District. See "DEVELOPMENT STATUS OF THE DISTRICT."

Developer's Obligations to the District: There is no commitment by or legal requirement of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any land owner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home or commercial construction activity in the District. Failure to construct taxable improvements on developed lots and commercial

tracts would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “DEVELOPMENT STATUS OF THE DISTRICT” and “THE DEVELOPER.”

Concentration of Tax Base: The District’s tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption “TAX DATA – Principal Taxpayers,” for the 2019 tax year, the District’s ten principal taxpayers owned property located in the District, the aggregate certified assessed valuation of which comprised approximately 21.64% of the District’s total certified assessed valuation. As also reflected under the caption “TAX DATA – Principal Taxpayers,” for the 2019 tax year, the Developer owned property located in the District, the aggregate certified assessed valuation of which comprised approximately 9.51% of the District’s total certified assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. See “DEVELOPMENT STATUS OF THE DISTRICT.” Failure by one or more of the District’s principal property owners to make full and timely payments of taxes due, or a decline in the District’s tax base due to a diminution of the personal property component thereof as described above, may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

Maximum Impact on District Tax Rate: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The taxable assessed valuation of all taxable property within the District as of January 1, 2019, is \$151,217,369, and the estimated valuation as of June 1, 2019, is \$174,041,000. After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds (herein defined) and the Bonds will be \$1,347,419 (2042), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,279,967 (2020–2043). Assuming no increase nor decrease from the District’s taxable assessed valuation as of January 1, 2019, a tax rate of \$0.94 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds, and a tax rate of \$0.90 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement on the Outstanding Bonds and the Bonds. Assuming no increase nor decrease from the District’s estimated valuation as of June 1, 2019, a tax rate of \$0.82 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds, and a tax rate of \$0.78 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement on the Outstanding Bonds and the Bonds. See “DISTRICT DEBT – Debt Service Requirements.” For the 2018 tax year, the District levied a total tax rate of \$0.900 per \$100 of assessed valuation, consisting of a debt service tax of \$0.775 per \$100 of assessed valuation and a maintenance tax of \$0.125 per \$100 of assessed valuation.

Tax Collections and Foreclosure Remedies

The District’s ability to make debt service payments may be adversely affected by difficulties in collecting ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court’s stay of tax collection proceedings against a taxpayer; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property.

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “TAX DATA – Estimated Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayer’s right to redeem property after foreclosure). Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal

Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer.

Outstanding Debt

The District has previously issued four series of unlimited tax road bonds for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District, to-wit: \$3,525,000 Unlimited Tax Road Bonds, Series 2016; \$1,560,000 Unlimited Tax Road Bonds, Series 2017; \$7,075,000 Unlimited Tax Road Bonds, Series 2018; and \$4,665,000 Unlimited Tax Road Bonds, Series 2019. Of such series of bonds previously issued by the District, \$16,500,000 principal amount will remain outstanding as of September 2, 2019 (collectively, the “Outstanding Bonds”).

Future Debt

Following the issuance of the Bonds, the following principal amounts will remain authorized but unissued: \$36,900,000 for the purpose of purchasing, constructing, acquiring and maintaining the road system to serve the District, as well as \$86,737,500 for the refunding of such bonds; \$63,550,000 for the purpose of purchasing, constructing, acquiring and maintaining water, sewer and drainage facilities to serve the District, as well as \$95,325,000 for the refunding of such bonds; and \$5,025,000 for the purpose of purchasing, constructing, acquiring and maintaining parks and recreational facilities to serve the District, as well as \$7,537,500 for the refunding of such bonds. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for and the investment quality and value of the Bonds. After the issuance of the Bonds, the District will owe the Developer approximately \$8,600,000 for the existing road facilities, approximately \$22,600,000 for the existing water, sewer, and drainage facilities, and approximately \$2,800,000 for the existing park facilities. See “DEVELOPMENT STATUS OF THE DISTRICT.”

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District’s consulting engineer, Murfee Engineering Company, Inc. (the “Engineer”), following the issuance of the Bonds, the remaining principal amount of authorized but unissued unlimited tax bonds will be sufficient to fully reimburse the Developer for the existing facilities and finance the water, sewer and drainage facilities, roads, park and recreational facilities necessary to serve the remaining undeveloped but developable land within the District.

The District is part of the approximately 2,790-acre master-planned community of “Sunfield.” Sunfield is comprised of the District, Sunfield Municipal Utility District No. 1 (“SMUD No. 1”), Sunfield Municipal Utility District No. 2 (“SMUD No. 2”), and Sunfield Municipal Utility District No. 4 (referred to herein as “SMUD No. 4” in its capacity as a Sunfield District or “Master District” in its capacity as the Master District). SMUD No. 1, SMUD No. 2, the District, and SMUD No. 4 are collectively referred to herein as the “Sunfield Districts.” See “SUNFIELD.”

The District has entered into a Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Drainage Facilities with the Master District pursuant to which the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities (“Master District Facilities”), and each Sunfield District will pay its pro-rata share of such cost. From time to time, the Master District will issue contract revenue bonds, and each Sunfield District will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries. Currently, neither SMUD No. 2 nor SMUD No. 4 has experienced any development, although each has entered into a similar agreement to pay for Master District Facilities; development within Sunfield is limited to the development within the District and SMUD No. 1.

Currently, the Master District owes the Developer approximately \$26,000,000 for the Master District Facilities. The Master District has no immediate plans to issue any bonds. See “THE SYSTEM.”

Bonds issued by the District and the Master District for water, sewer, drainage, and recreational facilities are subject to prior approval by the TCEQ. The TCEQ has certain economic feasibility rules that, for districts

located in Hays and Travis Counties, Texas, limit the amount of bonds which can be issued to an amount that can be amortized with a tax rate not exceeding \$1.20 per \$100 of assessed valuation, including all other obligations of the issuer secured by ad valorem taxes. Bonds to be issued by the District for roads currently are not subject to such economic feasibility rules but are subject to a “no growth tax rate limitation” of \$2.50 per \$100 of assessed valuation imposed by the Attorney General of Texas.

Competitive Nature of Austin Residential Commercial/Industrial Market

The housing, commercial and industrial construction industry in the City of Austin, Texas, area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The competitive position of the Developer and any of the homebuilders are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Environmental Regulation

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; and
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Obligations to Guadalupe-Blanco River Authority

The Master District has entered into an Agreement Regarding Wholesale Treated Water Service with the Guadalupe-Blanco River Authority (“GBRA”). Pursuant to such agreement, GBRA currently provides wholesale water supply to the Master District. See “THE SYSTEM.” GBRA is a regional provider of wholesale and retail water and wastewater services for areas located south of the City of Austin, Texas.

Water trunklines connecting the existing development within Sunfield to the GBRA waterlines have been constructed with monies advanced by the Developer. In 2004, the GBRA sold bonds and constructed a water line to the vicinity of Sunfield to serve the full development of the Sunfield Districts and other customers located in the vicinity of Sunfield. Each entity entitled to receive water service through such line is obligated to pay a portion of the debt service on such bonds. Initially, the Master District was obligated to pay approximately 34% of the debt service on such line. In addition to a pro-rata share of the debt service, the Master District is required to pay an annual water reservation fee. The Master District’s annual water reservation fee and pro-rata share of debt service allocated to Sunfield are collectively referred to herein as the “GBRA Payment.”

Effective February 15, 2012, the Sunfield Districts entered into an amended and restated non-standard water utility service agreement with Goforth Special Utility District (“Goforth SUD”) pursuant to which Goforth SUD will be the retail water provider and will have the obligation to make a portion of the GBRA Payment for each permanent connection in Sunfield assumed by Goforth SUD. In addition, in 2015 and 2018, Goforth SUD contracted for the early transfer of 2,000,000 gallons per day (“gpd”) of water and assumed the obligation to make the GBRA Payment for such 2,000,000 gpd. For the fiscal year ending September 30, 2018, the Sunfield Districts were responsible for approximately \$885,861 of the GBRA payment. The GBRA Payment is

estimated to be approximately \$528,313 for the fiscal year ending September 30, 2019, of which the District's obligation is \$0. Each Sunfield District is responsible for its pro-rata share of the GBRA Payment based upon its projected ultimate living unit equivalents ("LUEs"). Such obligation is secured by the unlimited ad valorem taxing authority of such Sunfield District. Pursuant to the agreement with Goforth SUD, SMUD No. 1's and the District's obligation to GBRA has been assumed by Goforth SUD in conjunction with the early transfer of 2,000,000 gpd of water. The remaining GBRA Payment is the obligation of SMUD No. 2 and SMUD No. 4 and is being made monthly by the Master District with monies advanced by the Developer. The Master District is current with all payment obligations.

Marketability of the Bonds

Except as described in the Official Notice of Sale, the District has no understanding with the initial purchaser of the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers, since such bonds are more generally bought, sold and traded in the secondary market.

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the bond insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the bond insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the bond insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the bond insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the bond 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 of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer and its claim paying ability. The bond insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the bond insurer and of the ratings on the Bonds insured by the bond insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "MUNICIPAL BOND INSURANCE" and "RATING."

The obligations of the bond insurer are contractual obligations and in an event of default by the bond insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District or Initial Purchaser has made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should

carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the bond insurer, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE” herein for further information provided by the bond insurer and the Policy, which includes further instructions for obtaining current financial information concerning the bond insurer.

Bankruptcy Limitation to Registered Owners’ Rights

Subject to the requirements of Texas, law, the District may voluntarily proceed under Chapter 9. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the registered owners of the Bonds (the “Registered Owners”) could be adjusted in accordance with the confirmed plan of adjustment of the District’s debt. See “THE BONDS – Registered Owners’ Remedies” and “– Bankruptcy Limitation to Registered Owners’ Rights.”

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “LEGAL MATTERS.”

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement. TCEQ approval of road bonds, and therefore of the Bonds is not required and, therefore, no engineering report or bond application has been submitted to the TCEQ and neither the Bonds, the project nor the feasibility of the District will be reviewed, considered or approved by the TCEQ.

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers should consult with their own tax advisors with respect to any propose, pending or future legislation.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request to Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will mature on September 1 of the years and in principal amounts, and will bear interest from September 1, 2019, at the rates per annum, as set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable March 1, 2020, and semiannually thereafter on each September 1 and March 1 until maturity or redemption. The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (defined below) shall select the particular Bonds to be redeemed by random selection method.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (the

“Paying Agent/Registrar”), the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” below.

Record Date for Interest Payment

Interest on the Bonds will be paid to the Registered Owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the “Record Date” (the fifteenth calendar day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the Registered Owner recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“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 in the registration and transfer books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee’s 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 believes the source of such information to be reliable, but takes 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 Securities and Exchange Commission, 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 required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities 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 issues, 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 Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at 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 purchase 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue 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 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 payable 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, 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 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 the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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 form, 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 system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Paying Agent/Registrar

The Board has selected Zions Bancorporation, National Association, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Houston, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a national or state banking institution, a 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 and subject to supervision or examination by federal or state authority to act as paying agent for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds 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 principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District 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 District and the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The bonds authorized by the resident electors of the District, the amount of bonds issued and the remaining authorized but unissued bonds are as follows:

| <u>Election Date</u> | <u>Purpose</u> | <u>Amount Authorized</u> | <u>Amount Issued</u> | <u>Remaining Authorized But Unissued</u> |
|----------------------|-----------------------------------|--------------------------|----------------------|--|
| 09/22/2007 | Roads | \$ 57,825,000 | \$20,925,000 (a) | \$ 36,900,000 |
| 09/22/2007 | Roads Refunding | \$ 86,737,500 | -0- | \$ 86,737,500 |
| 05/12/2007 | Water, Sewer & Drainage | \$ 63,550,000 | -0- | \$ 63,550,000 |
| 05/12/2007 | Water, Sewer & Drainage Refunding | \$ 95,325,000 | -0- | \$ 95,325,000 |
| 05/12/2007 | Parks & Recreation | \$ 5,025,000 | -0- | \$ 5,025,000 |
| 05/12/2007 | Parks & Recreation Refunding | \$ 7,537,500 | -0- | \$ 7,537,500 |

(a) Includes the Bonds.

The Bonds are issued pursuant to (i) the order of the TCEQ creating the District, (ii) the Bond Order (iii) the Texas Constitution, particularly Article III, Section 52, and general laws of the State of Texas, particularly Chapter 8201, Texas Special District Local Laws Code, and Chapters 49 and 54, Texas Water Code, as amended, and (iv) an election held by the District on September 22, 2007.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Outstanding Bonds

The District has previously issued four series of unlimited tax road bonds in the principal amount of \$16,825,000, of which \$16,500,000 principal amount will remain outstanding as of September 2, 2019 (the "Outstanding Bonds" as previously defined herein).

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax levied without legal limitation as to rate or amount against taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which may hereafter be issued by the District.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after September 1, 2025, shall be subject to redemption at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by a random selection method in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds maturing on September 1, 2043, are term bonds (the “Term Bonds”) and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in the year and in the principal amount set forth in the following schedule:

| <u>\$700,000 Term Bonds due September 1, 2043</u> | |
|---|-------------------------|
| <u>Mandatory Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2041 | \$ 225,000 |
| September 1, 2042 | 235,000 |
| September 1, 2043 | 240,000 |

On or before 30 days prior to each Mandatory Redemption Date as set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which by the 45th day prior to such Mandatory Redemption Date, has either been purchased in the open market and delivered or tendered for cancellation by the District or on behalf of the District to the Registrar or optionally redeemed and which, in neither case, has not previously been made the basis for a reduction under this sentence.

Annexation

The District lies within the extraterritorial jurisdiction of the City and may be annexed by the City under certain circumstances. Under general law, with certain exceptions, annexation of land by the City is subject to three procedures that allow for annexation: (i) on request of a landowner; (ii) for areas with a population of less than 200, by petition of voters and, if voter petitioners do not own more than 50% of the land in the area, by petition of a majority of the property owners in the area; or (iii) for areas with a population of 200 or more, by election of voters and, if voters do not own more than 50% of the land in the area, by petition of a majority of the property owners in the area. However, the foregoing provisions do not apply to areas that are subject to a Strategic Partnership Agreement under Section 43.0751, Texas Local Government Code.

The District and the City have previously entered into a Strategic Partnership Agreement, effective February 14, 2009 (“SPA”). Under the SPA, the City agreed to annex the property in the District for certain limited purposes, as provided under Sections 43.0751, Texas Local Government Code, and agreed not to annex the property in the District for full purposes until the earlier of (i) December 31, 2035, or (ii) upon completion and issuance of District bonds for 100% of utility infrastructure by the District pursuant to the Agreement Concerning Creation and Operation of the District between the City and the District.

If area within the District is annexed, under the terms of the SPA, the City must assume the District’s assets and obligations (including any outstanding bonds) and dissolve the District within 90 days of annexation. Annexation of property by the City is a policy-making matter within the discretion of the governing body of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently has no plans to do so.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from ad valorem taxes, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption 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 right to call the Bonds for redemption is not extinguished 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. In the Bond Order, the District has specifically reserved the right to call the Bonds for redemption after the defeasance thereof.

Issuance of Additional Debt

The Bonds are the fifth series of unlimited tax road bonds issued by the District out of an aggregate \$57,825,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District. The District's voters have also authorized the District's issuance of \$86,737,500 principal amount of unlimited tax bonds for the refunding of bonds issued by the District for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District; \$63,550,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring and maintaining water, sewer and drainage facilities to serve the District, as well as \$95,325,000 principal amount of unlimited tax bonds for the refunding of such bonds; and \$5,025,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring and maintaining parks and recreational facilities to serve the District, as well as \$7,537,500 principal amount of unlimited tax bonds for the purpose of refunding such bonds.

After issuance of the Bonds, the following principal amounts will remain authorized but unissued: \$36,900,000 for the purpose of purchasing, constructing, acquiring and maintaining the road system to serve the District, as well as \$86,737,500 for the refunding of such bonds; \$63,550,000 for the purpose of purchasing, constructing, acquiring and maintaining water, sewer and drainage facilities to serve the District, as well as \$95,325,000 for the refunding of such bonds; and \$5,025,000 for the purpose of purpose of purchasing, constructing, acquiring and maintaining parks and recreational facilities to serve the District, as well as \$7,537,500 for the refunding of such bonds. See "THE BONDS – Authority for Issuance."

Any bonds issued by the District must be approved by the Attorney General of Texas. At this time, the TCEQ does not exercise jurisdiction in approving bonds to finance the purchase, construction, acquire or maintenance of roads and roadway improvements. See “THE DISTRICT – General.”

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters or the amount ultimately issued by the District. Except with respect to the issuance of bonds for road purposes, the District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The total amount of bonds and other obligations of the District issued for road purposes may not exceed one-fourth of the assessed valuation of the real property in the District. See “RISK FACTORS – Future Debt.”

Amendments to the Bond Order

The District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners’ Remedies

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Registered Owners upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. Subject to the holdings of several recent Texas Supreme Court cases discussed below, a Registered Owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District. A Registered Owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a Registered Owner could be required to enforce such remedy on a periodic basis. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also 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 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 United States Bankruptcy Court ("Bankruptcy Court") approval, the prosecution of any other legal action by creditors or Bond holders 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 Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "RISK FACTORS – Bankruptcy Limitation to Registered Owners' Rights."

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decided in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District. A district cannot be placed into bankruptcy involuntarily.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt from Section 49.186 of the Texas Water Code and is applicable to the District:

(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.

(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of

the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

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Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will be used to reimburse the Developer for the road improvements and related engineering costs as shown below. Additionally, proceeds from the Bonds will be used to pay six (6) months of capitalized interest on the Bonds and the costs associated with the issuance of the Bonds.

| | <u>Amount</u> |
|---|---------------------|
| Construction Costs | |
| A. Sunfield Phase 3 Roadway Extension | \$ 654,447 |
| B. Road Improvements Serving Sunfield Phase 3, Section 3 | 304,153 |
| C. Road Improvements Serving Sunfield Phase 3, Section 4 | 827,497 |
| D. Road Improvements Serving Sunfield Phase 3, Section 2 | 928,329 |
| E. Road Improvements Serving Sunfield Phase 2, Section 12 | 102,960 |
| F. Engineering and Geotechnical Fees | <u>794,615</u> |
| Total Construction Costs | \$ 3,612,001 |
| Non-Construction Costs | |
| A. Legal Fees | \$ 117,500 |
| B. Fiscal Agent Fees | 82,000 |
| C. Bond Discount | 123,000 |
| D. Interest | |
| 1. Developer Interest | 51,559 |
| 2. Capitalized Interest (6 Months) | 55,525 |
| E. Bond Issuance Expenses | 32,965 |
| F. Attorney General Fee | 4,100 |
| G. Contingency (a) | <u>21,350</u> |
| Total Non-Construction Costs | \$ 487,999 |
| <u>Total Bond Issue Requirement</u> | <u>\$ 4,100,000</u> |

(a) Represents the difference between the estimated and actual amounts of capitalized interest.

The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, limited, however, to the purposes for which the Bonds were issued.

The Engineer (herein defined) has advised the District that proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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DISTRICT DEBT

General

| | | |
|--|---------------------|-----|
| 2019 Taxable Assessed Valuation..... | \$151,217,369 | (a) |
| Estimated Valuation as of June 1, 2019..... | \$174,041,000 | (b) |
| Direct Debt: | | |
| The Outstanding Bonds (as of September 2, 2019) | \$ 16,500,000 | |
| The Bonds | <u>\$ 4,100,000</u> | |
| Total..... | \$ 20,600,000 | |
| Estimated Overlapping Debt | <u>\$ 9,869,244</u> | (c) |
| Total Direct and Estimated Overlapping Debt | \$ 30,469,244 | |
| Direct Debt Ratios: | | |
| Based on 2019 Taxable Assessed Valuation..... | 13.62 | % |
| Based on Estimated Valuation as of June 1, 2019 | 11.84 | % |
| Direct and Estimated Overlapping Debt Ratios: | | |
| Based on 2019 Taxable Assessed Valuation..... | 20.15 | % |
| Based on Estimated Valuation as of June 1, 2019 | 17.51 | % |
| Road Debt Service Fund Balance (as of July 16, 2019)..... | \$ 976,432 | (d) |
| Road Capital Projects Fund Balance (as of July 16, 2019) | \$ 11,486 | |
| General Fund Balance (as of July 16, 2019)..... | \$ 221,001 | |
| 2018 Tax Rate | | |
| Debt Service | \$ 0.775 | |
| Maintenance & Operation..... | <u>\$ 0.125</u> | |
| Total..... | \$ 0.900 | (e) |
| Average Annual Debt Service Requirement (2020–2043) | \$ 1,279,967 | (f) |
| Maximum Annual Debt Service Requirement (2042)..... | \$ 1,347,419 | (f) |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2020–2043) at 95% Tax Collections | | |
| Based on 2019 Taxable Assessed Valuation..... | \$ 0.90 | |
| Based on Estimated Valuation as of June 1, 2019 | \$ 0.78 | |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2042) at 95% Tax Collections | | |
| Based on 2019 Taxable Assessed Valuation..... | \$ 0.94 | |
| Based on Estimated Valuation as of June 1, 2019 | \$ 0.82 | |

-
- (a) Represents the taxable amount of assessed valuation as of January 1, 2019, of taxable property in the District within Hays County, as provided by the Hays Central Appraisal District upon certification of the 2019 appraisal rolls. Such amount includes \$4,859,543 of taxable value, which is 90% of the total taxable value associated with properties that remain under review of the Hays County Appraisal Review Board as of certification for the 2019 tax year. Such amount does not include taxable value associated with taxable property located in the District within Travis County. For the 2018 tax year, the taxable value of such properties in Travis County was \$10,082. See "TAXING PROCEDURES" and "TAX DATA."
- (b) Provided by the Hays Central Appraisal District for information purposes only. This estimate reflects the addition of the taxable value of new construction within the District from January 1, 2018, to June 1, 2019, and is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Road Debt Service Fund. At the time of closing on the Bonds, six (6) months of capitalized interest and accrued interest will be deposited into the Road Debt Service Fund.
- (e) The Board of Directors of the District has authorized publication of a notice of public hearing to consider a tax rate for the 2019 tax year in the total amount of \$0.90 per \$100 of taxable assessed valuation.
- (f) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

Estimated Overlapping Debt Statement

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

| Taxing Jurisdiction | Outstanding Debt June 30, 2019 | Estimated Overlapping | |
|--|-----------------------------------|-----------------------|--|
| | | Percent | Amount |
| Hays County | \$414,252,697 | 0.32% | \$ 1,325,609 |
| Hays Consolidated ISD | 480,995,000 | 0.95 | 4,569,453 |
| Austin Community College District | 418,335,000 | 0.95 | 3,974,183 |
| Total Estimated Overlapping Debt The District | | | \$ 9,869,244 (a)(b) <u>20,600,000 (c)</u> |
| Total Direct & Estimated Overlapping Debt | | | <u>\$ 30,469,244</u> |

- (a) A small portion of the District is located within Travis County, Texas. The value of taxable property within the District that is within these taxing jurisdictions represents less than 0.01% of the value of the taxing jurisdictions and does not have a material impact upon the District’s debt burden.
- (b) In addition to the Estimated Overlapping Debt, the Sunfield Districts are liable to the GBRA for debt service on water supply facilities constructed to serve Sunfield. See “THE SYSTEM” and “RISK FACTORS – Obligations to Guadalupe-Blanco River Authority.”
- (c) Includes the Bonds and the Outstanding Bonds as of September 2, 2019.

Debt Ratios

Direct Debt Ratios:

| | |
|---|---------|
| Based on 2019 Taxable Assessed Valuation..... | 13.62 % |
| Based on Estimated Valuation as of June 1, 2019 | 11.84 % |

Direct and Estimated Overlapping Debt Ratios:

| | |
|---|---------|
| Based on 2019 Taxable Assessed Valuation..... | 20.15 % |
| Based on Estimated Valuation as of June 1, 2019 | 17.51 % |

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Debt Service Requirements

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds, the principal, interest, and annual debt service requirements of the Bonds, and the combined annual debt service requirements of the Outstanding Bonds and the Bonds.

| Calendar Year | Outstanding Bonds Debt Service | Plus: The Bonds | | Combined Total Debt Service | |
|------------------|-----------------------------------|-----------------|-------------|--------------------------------|--------------|
| | | Principal | Interest | | |
| 2020 | \$1,005,239 | \$115,000 | \$111,050 | \$226,050 | \$1,231,289 |
| 2021 | 1,007,759 | 120,000 | 106,163 | 226,163 | 1,233,921 |
| 2022 | 1,014,289 | 125,000 | 100,763 | 225,763 | 1,240,051 |
| 2023 | 1,019,729 | 125,000 | 95,138 | 220,138 | 1,239,866 |
| 2024 | 1,029,454 | 130,000 | 89,513 | 219,513 | 1,248,966 |
| 2025 | 1,033,259 | 135,000 | 83,663 | 218,663 | 1,251,921 |
| 2026 | 1,037,465 | 140,000 | 79,275 | 219,275 | 1,256,740 |
| 2027 | 1,045,765 | 145,000 | 76,475 | 221,475 | 1,267,240 |
| 2028 | 1,047,823 | 150,000 | 73,575 | 223,575 | 1,271,398 |
| 2029 | 1,059,736 | 155,000 | 70,575 | 225,575 | 1,285,311 |
| 2030 | 1,059,468 | 160,000 | 67,475 | 227,475 | 1,286,943 |
| 2031 | 1,063,093 | 165,000 | 64,275 | 229,275 | 1,292,368 |
| 2032 | 1,065,818 | 170,000 | 60,975 | 230,975 | 1,296,793 |
| 2033 | 1,071,880 | 175,000 | 57,575 | 232,575 | 1,304,455 |
| 2034 | 1,071,704 | 180,000 | 53,856 | 233,856 | 1,305,560 |
| 2035 | 1,085,304 | 185,000 | 49,806 | 234,806 | 1,320,110 |
| 2036 | 1,086,558 | 190,000 | 45,413 | 235,413 | 1,321,970 |
| 2037 | 1,096,276 | 200,000 | 40,663 | 240,663 | 1,336,939 |
| 2038 | 1,094,314 | 205,000 | 35,663 | 240,663 | 1,334,976 |
| 2039 | 1,095,831 | 210,000 | 30,538 | 240,538 | 1,336,369 |
| 2040 | 1,100,589 | 220,000 | 25,025 | 245,025 | 1,345,614 |
| 2041 | 1,098,463 | 225,000 | 19,250 | 244,250 | 1,342,713 |
| 2042 | 1,099,356 | 235,000 | 13,063 | 248,063 | 1,347,419 |
| 2043 | 773,675 | 240,000 | 6,600 | 246,600 | 1,020,275 |
| Total | \$25,162,843 | \$4,100,000 | \$1,456,367 | \$5,556,367 | \$30,719,207 |

Average Annual Debt Service Requirement (2020–2043)\$1,279,967

Maximum Annual Debt Service Requirement (2042).....\$1,347,419

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TAXING PROCEDURES

Set forth below is a summary of certain provisions of the Texas Tax Code (the "Tax Code") relating to the District's ability to levy and collect property taxes on property within the District. Provisions of the Tax Code are complex and are not fully summarized herein. Reference is made to the Tax Code for more complete information, including the identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount 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 Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS – Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and for the payment of certain contractual obligations. For the 2018 tax year, the District levied a total tax of \$0.900 per \$100 of assessed valuation, consisting of a debt service tax rate of \$0.775 per \$100 of assessed valuation and a maintenance tax rate of \$0.125 per \$100 of assessed valuation. See "TAX DATA – Tax Rate Limitation."

Tax Code and County-Wide Appraisal District

The Tax Code specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized herein. The Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Hays Central Appraisal District and Travis Central Appraisal District (the "Appraisal Districts") have the responsibility of appraising property for all taxing units within Hays and Travis Counties, Texas, respectively, including the District. Such appraisal values will be subject to review and change by the Hays County Appraisal Review Board and Travis County Appraisal Review Board (the "Appraisal Review Boards"). The appraisal roll, as approved by the Appraisal Review Boards, will be used by the District in establishing its tax rolls and tax rate.

The Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraisers must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the Appraisal Review Boards by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are entitled to challenge certain matters before the Appraisal Review Boards, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The Appraisal Districts are governed by boards of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the Appraisal Districts. The Tax Code requires each appraisal

district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the Appraisal Districts at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal Districts or whether reappraisals will be conducted on a zone or county-wide basis.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of one hundred percent (100%) is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferrable to a subsequent residence homestead 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.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have

been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. Freeport goods are exempt from taxation by the District. 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 a provision of the Tax Code, which is effective for tax year 2016 and prior applicable years, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory. For tax year 2016 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The Tax Code provision 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. The District has taken action to tax Goods-in-Transit. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax Abatement

Hays County or Travis County may designate all or part of the area within the District as a reinvestment zone. Thereafter, either Hays Consolidated Independent School District or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, 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 make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the District has been designated as a reinvestment zone to date, and the District has not approved any such tax abatement agreements.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal Districts at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Boards, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code.

The Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The 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 of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use 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 taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

Notice and Hearing Procedures

The Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. The District is required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year.

Rollback of Operation and Maintenance Tax Rate

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed are classified herein as "Other Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Low Tax Rate Districts

Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Other Districts

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Other Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Boards by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal Districts to compel compliance with the Tax Code.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 10. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based on valuation of property within the District as of the preceding January 1.

Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

Property owners who are disabled or at least 65 years of age or older and qualify to receive a homestead exemption, may pay property taxes in four equal installments following a disaster. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. Effective September 1, 2017, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax

lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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 federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

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 or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

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TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds and the Outstanding Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District’s assessed valuation as of January 1 of that year. Taxes become due November 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District’s tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$0.90 per \$100 of assessed valuation, for operation and maintenance purposes. For the 2018 tax year, the District levied a total tax of \$0.900 per \$100 of assessed valuation, consisting of a debt service tax rate of \$0.775 per \$100 of assessed valuation and a maintenance tax rate of \$0.125 per \$100 of assessed valuation.

Tax Rate Limitation

| | |
|---|--|
| Water, Sewer and Drainage Debt Service: | Unlimited (no legal limit as to rate or amount). |
| Road Debt Service: | Unlimited (no legal limit as to rate or amount). |
| Master District Contract Tax: | Unlimited (no legal limit as to rate or amount). |
| Parks and Recreational Facilities Debt Service Tax: | Unlimited (no legal limit as to rate or amount). |
| Maintenance: | \$0.90 per \$100 assessed valuation. |

Historical Tax Collections

The following table illustrates the collection history of the District for the 2013–2018 tax years:

| <u>Tax Year</u> | <u>Assessed Valuation</u> | <u>Tax Rate (a)</u> | <u>Adjusted Levy</u> | <u>Collections Current Year</u> | <u>Current Year Ended 9/30</u> | <u>Collections 06/30/19</u> |
|-----------------|---------------------------|---------------------|----------------------|---------------------------------|--------------------------------|-----------------------------|
| 2013 | \$102,638 | \$0.900 | \$924 | 100.00% | 2014 | 100.00% |
| 2014 | 92,399 | \$0.900 | 832 | 100.00 | 2015 | 100.00 |
| 2015 | 666,526 | \$0.900 | 5,999 | 100.00 | 2016 | 100.00 |
| 2016 | 8,575,319 | \$0.900 | 82,833 | 100.00 | 2017 | 100.00 |
| 2017 | 29,723,807 | \$0.900 | 267,514 | 100.00 | 2018 | 100.00 |
| 2018 | 74,498,423 | \$0.900 | 670,486 | 99.33(b) | 2019 | 99.33(b) |

(a) Total tax rate per \$100 of assessed valuation. Includes a tax for maintenance and operation purposes. See “Tax Rate Distribution” below.

(b) Collections through June 30, 2019.

Tax Rate Distribution

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--------------|--------------|--------------|--------------|--------------|--------------|
| Debt Service | \$ 0.775 | \$ 0.760 | \$ 0.000 | \$ 0.000 | \$ 0.000 |
| Maintenance | <u>0.125</u> | <u>0.140</u> | <u>0.900</u> | <u>0.900</u> | <u>0.900</u> |
| Total (a) | \$ 0.900 | \$ 0.900 | \$ 0.900 | \$ 0.900 | \$ 0.900 |

(a) The Board of Directors of the District has authorized publication of a notice of public hearing to consider a tax rate for the 2019 tax year in the total amount of \$0.90 per \$100 of taxable assessed valuation.

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Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the tax years 2015–2019 by type of property:

| Type of Property | 2019 Assessed Taxable Valuation (a) | 2018 Assessed Taxable Valuation | 2017 Assessed Taxable Valuation | 2016 Assessed Taxable Valuation | 2015 Assessed Taxable Valuation |
|-------------------|--|--|--|--|--|
| Land | \$45,030,009 | \$23,698,843 | \$18,545,832 | \$9,515,207 | \$7,959,095 |
| Improvements | 106,861,942 | 53,662,510 | 12,490,636 | 7,009,410 | 75,820 |
| Personal Property | 158,189 | 143,820 | 41,976 | 4,155 | 2,507 |
| Exemptions | <u>(5,692,314)</u> | <u>(3,006,750)</u> | <u>(1,354,637)</u> | <u>(7,953,453)</u> | <u>(7,370,896)</u> |
| Total | \$146,357,826 | \$74,498,423 | \$29,723,807 | \$8,575,319 | \$ 666,526 |

(a) Does not include taxable value associated with properties within the District in Hays County that remain under review of the Hays County Appraisal Review Board upon certification for the 2019 tax year. Does not include taxable value associated with properties within the District in Travis County.

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2019:

| Taxpayer | Type of Property | Assessed Taxable Valuation 2019 Tax Roll | Percentage of District’s 2019 Taxable Value |
|---------------------------|---------------------|--|---|
| 2428 SF PH 1 LLC (a) | Land & Improvements | \$13,918,900 | 9.51% |
| 2428 Partners LP (a) | Land & Improvements | 5,231,294 | 3.57 |
| Castlerock Communities LP | Land & Improvements | 4,427,010 | 3.02 |
| Gehan Homes LTD | Land & Improvements | 2,724,110 | 1.86 |
| Pulte Homes of Texas LP | Land & Improvements | 2,290,093 | 1.56 |
| RSI Communities Texas LLC | Land & Improvements | 1,216,250 | 0.83 |
| Homeowner | Land & Improvements | 476,155 | 0.33 |
| Homeowner | Land & Improvements | 463,930 | 0.32 |
| Homeowner | Land & Improvements | 463,930 | 0.32 |
| Homeowner | Land & Improvements | 463,930 | 0.32 |
| Totals | | \$31,675,602 | 21.64% |

(a) See “THE DEVELOPER” below and “Analysis of Tax Base” above.

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Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District occurs beyond the 2019 Taxable Assessed Valuation (\$151,217,369) or the Estimated Valuation as of June 1, 2019 (\$174,041,000). The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

| | |
|---|-------------|
| Average Annual Debt Service Requirement (2020–2043) | \$1,279,967 |
| Tax Rate of \$0.90 on the 2019 Taxable Assessed Valuation produces..... | \$1,292,909 |
| Tax Rate of \$0.78 on the Estimated Valuation as of June 1, 2019, produces..... | \$1,289,644 |
| Maximum Annual Debt Service Requirement (2042) | \$1,347,419 |
| Tax Rate of \$0.94 on the 2019 Taxable Assessed Valuation produces..... | \$1,350,371 |
| Tax Rate of \$0.82 on the Estimated Valuation as of June 1, 2019, produces..... | \$1,355,779 |

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see “DISTRICT DEBT – Estimated Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

| <u>Taxing Jurisdiction</u> | <u>2018 Tax Rate Per \$100 of Assessed Value</u> | |
|---|--|--------------------------|
| | <u>Hays County</u> | <u>Travis County (a)</u> |
| The District | \$0.900000 | \$0.900000 |
| Hays County | 0.433700 | --- |
| Hays County Emergency Service District No. 8 | 0.100000 | --- |
| Northeast Hays Emergency Service District No. 2 | 0.050000 | --- |
| Hays Consolidated Independent School District | 1.537700 | 1.537700 |
| Austin Community College District | 0.104800 | 0.104800 |
| Travis County | --- | 0.354200 |
| Travis County Healthcare District | --- | 0.105221 |
| Travis County Emergency Service District No. 11 | --- | 0.100000 |
| | <u>\$3.126200</u> | <u>\$3.101921</u> |

(a) A small portion of the District is located in Travis County, Texas.

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THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution.

The District was created by order of the TCEQ as Winfield Municipal Utility District No. 3 on June 27, 2005, and, by subsequent order of the TCEQ on April 10, 2006, the name of the District was changed to Sunfield Municipal Utility District No. 3. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. In addition, pursuant to Chapter 8201, Texas Special District Local Laws Code, the District is authorized to construct, acquire, improve, maintain or operate roads located within or outside its boundaries. The District is also authorized to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ.

Description

The District is situated in both Hays County, Texas, and Travis County, Texas. Approximately 814.06 of the District's 864.06 total acres are within Hays County, Texas, and approximately 50.00 acres are in Travis County, Texas. The District is located approximately 15 miles south of the City of Austin, Texas, and approximately 2 miles east of the City of Buda, Texas. The District is bordered on the north by Turnersville Road, on the south by Farm-to-Market Road 2001. The District is located wholly within the extraterritorial jurisdiction of the City of Buda, Texas. The District is located entirely within the Hays Consolidated Independent School District. The District is located wholly within the approximately 2,790-acre master-planned community known as "Sunfield" and wholly within an area certificated to the Goforth SUD for the providing of retail water service. See "THE SYSTEM."

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. None of the present members of the Board reside within the District, but all own real property located within the boundaries of the District. Directors are elected in even-numbered years for staggered, four-year terms. The present members and officers of the Board are listed below:

| <u>Name</u> | <u>Position</u> | <u>Term Expires May</u> |
|----------------|---------------------|-------------------------|
| Kendall Bryant | President | 2020 |
| Kari Edgar | Vice President | 2022 |
| Julie Liddell | Secretary | 2022 |
| Ricky Boyd | Assistant Secretary | 2022 |
| Connie Hentosh | Assistant Secretary | 2020 |

The District has contracted with following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector: The District's Tax Assessor/Collector is the Hays County Tax Office.

Bookkeeper: Municipal Accounts & Consulting LP serves as bookkeeper to the District.

Utility System Operator: The Master District operates the District's wastewater system. The Master District has contracted with Inframark to operate the wastewater system and the recently completed master water storage and pumping facilities. Goforth SUD operates the District's water system.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. Mark C. Eyring, CPA, PLLC has been retained to perform the audit of the District's financial statements for the fiscal year ending September 30, 2018.

Engineer: Murfee Engineering Co., Inc. is retained as the District Engineer for all Sunfield Districts. There are 2 other engineering firms that were hired to design the District's subdivisions, utility infrastructure and roads. Murfee Engineering Co., Inc. designed the Master District's water and wastewater facilities.

General Counsel & Bond Counsel: The District has engaged Coats Rose, P.C., Dallas, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Disclosure Counsel: The District has engaged The Muller Law Group, PLLC, Sugar Land, Texas, as Disclosure Counsel in connection with the issuance of the Bonds. The legal fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

Financial Advisor: The District has engaged the firm of Robert W. Baird & Co. Incorporated, Houston, Texas, as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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DEVELOPMENT STATUS OF THE DISTRICT

The District contains approximately 864.06 total acres of land. To date, residential development in the District includes approximately 1,161 single-family lots within the following subdivisions: Sunfield Phase 2, Sections 2, 3, 5, 6, 7, 8, 9, 10, and 11, and Sunfield Phase 3, Sections 2, 3, 4, and 5A. As of June 1, 2019, single-family residential development within the District included approximately 544 complete homes (approximately 505 occupied, 22 unoccupied, and 17 model homes), approximately 130 homes under construction, and approximately 487 vacant lots available for additional home construction. In addition, the following residential subdivisions are currently under construction: Sunfield Phase 2, Section 12, is under construction for the development of approximately 136 single-family lots; Sunfield Phase 3, Section 5B, is under construction for development of approximately 121 single-family lots; and Sunfield Phase 3, Section 5C, is under construction for development of approximately 144 single-family lots.

The subdivisions referenced above encompass approximately 353.52 acres within the District. The remaining land in the District consists of approximately 4.13 acres for multi-family purposes, approximately 451.41 undeveloped but developable acres and approximately 55.00 undevelopable acres

The table below summarizes the development within the District as of June 1, 2019, by section.

| Sunfield | Platted Acreage | Lots | Homes Completed | Homes Construction | Vacant Lots |
|-------------------------------------|--------------------|-----------|--------------------|-----------------------|----------------|
| Phase 2, Section 2 | 5.89 | 22 | 22 | 0 | 0 |
| Phase 2, Section 3 | 5.07 | 17 | 17 | 0 | 0 |
| Phase 2, Section 5 | 26.24 | 84 | 77 | 5 | 2 |
| Phase 2, Section 6 | 30.88 | 150 | 144 | 5 | 1 |
| Phase 2, Section 7 | 20.00 | 97 | 94 | 2 | 1 |
| Phase 2, Section 8 | 28.89 | 109 | 50 | 24 | 35 |
| Phase 2, Section 9 | 12.58 | 44 | 30 | 11 | 3 |
| Phase 2, Section 10 | 14.82 | 57 | 55 | 1 | 1 |
| Phase 2, Section 11 | 21.07 | 110 | 41 | 61 | 8 |
| Phase 3, Section 2 | 29.31 | 141 | 0 | 0 | 141 |
| Phase 3, Section 3 | 45.66 | 206 | 0 | 21 | 185 |
| Phase 3, Section 4 | 27.35 | 96 | 0 | 0 | 96 |
| Phase 3, Section 5A | <u>4.59</u> | <u>28</u> | <u>14</u> | <u>0</u> | <u>14</u> |
| Single-Family Residential Developed | 272.35 | 1,161 | 544 | 130 | 487 |
| Single-Family Under Development | 81.17 | | | | |
| Multi-Family Development | 4.13 | | | | |
| Undevelopable | 55.00 | | | | |
| Remaining Developable | 451.01 | | | | |
| District Total | 864.06 | | | | |

Homebuilders within the District

Homebuilders active within Sunfield include Centex Homes, Castle Rock Homes, Gehan Homes, William Lyon Homes and Chesmar Homes Austin. Homes being constructed in Sunfield range in price from \$200,000 to \$395,000.

SUNFIELD

Sunfield is a master-planned community located 15 miles south of downtown Austin, Texas, and 2 miles east of Buda, Texas. Sunfield is bounded by Turnersville Road on the north, Farm-to-Market Road 2001 on the south and Firecracker Road is located within the project.

All 2,790 acres of land that make up Sunfield are located within one of four municipal utility districts created by order of the TCEQ to serve Sunfield: the District, Sunfield Municipal Utility District No. 1 ("SMUD No. 1"), Sunfield Municipal Utility District No. 2 ("SMUD No. 2"), and Sunfield Municipal Utility District No. 4 ("SMUD

No. 4” in its capacity as an internal district and the “Master District” in its capacity as the Master District). To date, all material development in Sunfield has occurred within the District and SMUD No. 1.

Currently, approximately 714.46 acres are fully developed within Sunfield. Of the developed acres, approximately 501.62 acres (1,981 lots) have been developed for single-family residential and approximately 212.24 acres have been developed for retail, industrial and multi-family use. As of June 1, 2019, Sunfield contained approximately 1,247 completed homes (approximately 1,199 completed and occupied, 25 completed and unoccupied, and 23 model homes), approximately 176 homes under construction, and approximately 558 vacant, developed lots. Additionally, as of June 1, 2019, approximately 81.17 acres (401 lots) are under development in Sunfield. The remaining land in Sunfield consists of approximately 1,557.60 undeveloped but developable acres, and approximately 468.63 undevelopable acres.

U.S. Foods, Inc., a foodservicing distribution for restaurants, hospital facilities, governmental operations and educational institutions, has purchased a 40.17-acre site on which it has constructed a 277,000 square-foot office, dry food storage, refrigerated food storage and freezer food storage facility as well as a 10,000 square-foot maintenance facility. U.S. Foods opened the facilities for business in August of 2011. Tractor Supply Company, a retail farm and ranch store chain, has constructed and operates a 19,100 square foot store located on approximately 3.82 acres. Sunfield also contains a Burger King (0.801 acres) as well as a new Super 6 hotel (1.40 acres). Baylor Scott and White purchased 19.60 acres for the construction of a hospital and retail facility and is making an investment of at least \$35 million in land, buildings, equipment, inventory and other improvements necessary for a full medical facility. The hospital, which will be at least 70,000 square-feet, will also include a full-service emergency department, medical office space, retail pads, operating rooms, imaging and their facilities. The facility is expected to be open and operational by the fourth quarter of 2019. Exeter Property Group operating under the name of Exeter Buda Land LP, purchased 36.78 acres and is currently developing 300,000 square feet of industrial space with plans to build an additional 300,000 square feet in phase II totaling more than 600,000 square feet within the development known as Sunfield. WAMSFTX's purchased 8 acres for the Sunfield Station athletic complex and will consist of a 30,000 square foot indoor multi-use sports complex and associated sports retail center with an estimated 60,000 square feet of building/retail space. The complex will primary focus on indoor volleyball, but will also include basketball and other sports. The project estimates that each tournament at the facility will bring up to 1,500 visitors to the City of Buda, Texas, with that number estimated to increase as tournaments grow in size and frequency. Long-range projections indicate the annual visitor count to the facility could exceed 40,000. A convenience store site consisting of 1.40 acres was sold and will be located at the corner of Main Street and Campo Del Sol. It will include various convenience store products as well as beer and wine sales and gas facilities. AMP CNG purchased 1.733 acres and constructed a high pressure gas station that fuels all of the U.S. Foods transportation department. The remaining commercial acreage is 195.49 acres which entails developed commercial pads for future commercial sites. See “USE OF INFORMATION IN OFFICIAL STATEMENT” herein.

Multi-family development in Sunfield includes two apartment complexes: Tuscany Apartments, on 13 acres, contains 196 units that are currently 100% leased and Huntington Senior Living Apartments, on 5.81 acres, contains 120 units that are currently 100% leased. In February of 2019 SWBC, an apartment developer, closed on approximately 16.59 acres in Sunfield, of which approximately 4.13 acres are located within the District and the remaining located in SMUD No. 1. SWBC plans to construct an approximately 300 unit multi-family development within Sunfield.

At full development, it is anticipated that Sunfield will contain approximately 1,005 acres of residential development, 83 acres of multi-family development, approximately 760 acres of commercial and industrial development, and 942 acres of land for community and recreational uses. The District makes no representation as to the timing or likelihood of such development occurring.

Homebuilders active within Sunfield include Centex Homes, Castle Rock Homes, Gehan Homes, William Lyon Homes and Chesmar Homes Austin. Homes being constructed in Sunfield range in price from \$200,000 to \$395,000. Homebuilding began in Sunfield in July of 2010 and approximately 15 homes were constructed during 2010; 55 homes were constructed in 2011; 136 homes were constructed in 2012; 129 homes were constructed in 2013; 45 were constructed in 2014; 124 homes were constructed in 2015, 138 homes were constructed in 2016; 151 homes were constructed in 2017; and 341 homes were constructed in 2018.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(February 2019)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(February 2019)



THE DEVELOPER

The Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include the following: acquiring the land within the district; designing the subdivision, the utilities and streets to be constructed in the subdivision, and any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling improved lots and commercial reserves to builders and other developers or other third parties. Pursuant to the rules of the TCEQ, a developer can be required to pay up to 30% of the cost of constructing certain water, wastewater and drainage facilities in a municipal utility district. The relative success or failure of a developer to perform such activities in the development of property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a municipal utility district to develop the property that it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a municipal utility district.

The Developer

The principal developer of land within the District is 2428 SF PH 1 LLC ("the Developer"), a Texas limited liability company, which is wholly owned by 2428 Partners, LLC. 2428 Partners, LLC is comprised of 2428 Management, LLC, as general partner, and IHP Joint Investment Fund, LLC, as limited partner. The development is managed by Scarborough Sunfield, LLC, a third-party management company controlled by James R. Feagin and Ryan Burkhardt. The Developer and its related entities currently own approximately 578.65 acres in the District, 343 vacant, developed lots in the District, and approximately 1,569.22 acres in the remainder of Sunfield.

Development Financing

Funding for development of Sunfield is provided to the Developer by cash contributions from its partners.

Lot-Sales Contracts

The Developer has entered into lot-sales contracts with Castle Rock Communities, LP ("CR"), Centex Homes ("Centex"), Gehan Homes, LTD ("Gehan"), William Lyon Homes (formally "RSI") and Chesmar Homes Austin, LTD ("Chesmar") for the purchase of the 1,267 total lots within the District, of which 909 have been sold.

In the event CR, Gehan, Chesmar, William Lyon or Centex should default under its lot purchase contract, the Developer's sole remedy is retention of earnest money. According to the Developer, as of the date of this Official Statement, CR, Centex, Gehan, William Lyon and Chesmar are in compliance with the obligations under their respective lot-sales contracts, and, as of June 1, 2019, the total number of lots contracted and purchased by each builder is listed below:

| Homebuilder | Total Lots Contracted | Total Lots Purchased |
|--------------|-----------------------|----------------------|
| CR | 338 | 223 |
| Centex | 484 | 343 |
| Lyon ("RSI") | 117 | 117 |
| Gehan | 208 | 154 |
| Chesmar | 120 | 72 |
| Totals | 1,267 | 909 |

THE SYSTEM

Regulation

According to the Engineer, the water distribution, wastewater collection and storm water drainage facilities and roads constructed by the District (the "System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory

jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Buda, Texas, the Texas Department of Transportation and Hays and Travis Counties, Texas. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies and, the water and sanitary sewer system has been inspected by the appropriate jurisdictional entities.

Operation of the District's waterworks and sewer facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Description of the System

- Roads -

The road system to serve the District includes arterial roads (major and minor) and internal roads. The major arterial roads include the realignment of Farm-to-Market Road 2001, Firecracker Road and the Loop 4/Main Street extension. These roads are necessary improvements required to serve the District. Various roads are built providing vehicular access to Sunfield Phase 2, Sections 2, 3, 5, 6, 7, 8, 9, 10 and 11, and future Section 12, along with Sunfield Phase 3. All roads built to serve the District are conveyed to the county in which the road is located for ownership and operation.

Planning for road extensions and development of a road infrastructure that includes subdivision roads, major and minor arterials and highway/parkway is a task that involves various entities and planning groups. The two primary entities with road planning efforts in the vicinity are the City of Buda, Texas, and the Capital Area Metropolitan Planning Organization ("CAMPO"). These two entities have adopted planning studies that include road improvements anticipated to be constructed as part of Sunfield. The City of Buda, Texas, has adopted the Buda Master Transportation Plan, and CAMPO has adopted the 2030 Regional Roadway System. The road improvements developed and planned in Sunfield comply with both of these plans, in part, by contributing arterial roads and feeder roads. Additionally, the City of Buda, Texas, through the adoption of a Traffic Impact Analysis and Mitigation Plan for Sunfield, has set the design standards for the roads to serve Sunfield. In addition, the Texas Transportation Commission has proposed the realignment of a section of Farm-to-Market Road 2001 east of Interstate Highway 35 and a Main Street extension to State Highway 45 and includes the construction of an interchange and frontage roads, a portion of which will need to be funded by the Sunfield Districts.

- Wastewater Treatment and Conveyance System -

Sunfield is provided wastewater treatment from the Master District's 500,000 gallons per day ("gpd") wastewater treatment plant. The District is a co-permit holder with the Guadalupe-Blanco River Authority ("GBRA") with whom the Master District has contracted to operate the plant. The wastewater treatment plant is permitted for up to 0.99 million gpd. The wastewater collection system consists of 12 and 8 inch diameter gravity collection lines that connect to the Master District's 24 inch wastewater trunkline feeding the wastewater treatment plant. The Master District constructed extensions to the wastewater system to provide service to the northern portions of the District. The extensions included gravity collection lines, a lift station and forcemain. Current flows at the plant are approximately 280,000 gpd.

- Water Supply and Distribution -

Sunfield is provided water service through 8, 12, and 16 inch water lines constructed by the District and the Master District and conveyed to Goforth SUD, as the retail service provider, for operation and maintenance. The entire development to date is within the Certificate of Convenience and Necessity No. 11356 held by Goforth SUD. The Master District constructed water system improvements to provide and improve water service to the development. The improvements included a 500,000 gallon elevated storage tank, a 1,500 gallon per minute pump station, a 250,000 gallon ground storage tank, an interconnect and meter assembly, a 16 inch water transmission main, and a 24 inch water transmission main. The existing water supply facilities are sufficient to serve approximately 4,630 living unit equivalents ("LUEs"). Goforth SUD currently is serving approximately 652 LUEs in the District and 1,218 LUEs in SMUD No 1.

- Drainage -

The Sunfield development is provided with drainage of stormwater via a curb and guttered street system, buried storm pipes connecting to drainage channels and detention ponds. The land generally slopes southeasterly in the drainage basin of the Blanco River. Majority of the District drains to the north into the Onion Creek watershed and eventually to the Colorado River. A small portion drains to the Plum Creek watershed and eventually to the Guadalupe-Blanco River.

- Agreement Regarding Wholesale Water Supply and Wastewater Treatment -

The Master District is a party to various agreements with the GBRA pursuant to which Master District has acquired a supply of water for approximately 4,630 LUEs and the transportation of such water to Sunfield. Pursuant to such agreements, the Master District is reserving untreated water, paying for the cost of treating water and its pro rata share of the annual debt service on certain water treatment facilities and water trunklines conveying water to Sunfield ("GBRA Payment"). Pursuant to the hereinafter defined Master District Contract, each of the Sunfield Districts has agreed to pay a portion of the GBRA Payment based upon the projected number of connections in each district. As an obligation to the Master District, each Sunfield District's obligation is secured by its unlimited ad valorem taxing authority. Effective February 15, 2012, the Sunfield Districts entered into an amended and restated non-standard water utility service agreement with Goforth SUD pursuant to which Goforth SUD will be the retail provider of water service to Sunfield and will have the obligation to make a pro-rata portion of the GBRA Payment for each permanent connection made in Sunfield assumed by Goforth SUD beginning in the calendar quarter following the installation of such connection. In addition, in 2015 and 2018, Goforth SUD contracted for the early transfer of 2,000,000 gpd of water and assumed that portion of the obligation to make the GBRA Payment allocable to such 2,000,000 gpd of water. Based upon such agreement, Sunfield's pro-rata share of the GBRA Payment for the fiscal year ending September 30, 2018, was approximately \$885,861. For the fiscal year ending September 30, 2019, the obligations of the Sunfield Districts are estimated to be approximately \$528,313, of which the District's obligation is \$0. All of the early transfers received from Goforth SUD are first applied by the Master District to the SMUD No. 1 and 3's pro-rata share of the GBRA Payment, eliminating the SMUD No. 1 and 3's obligation to make any further payments. The Master District's GBRA Payment is the obligation of the District, SMUD No. 2 and SMUD No. 4 and is being made monthly to the Master District with monies provided by the Developer. See "RISK FACTORS – Obligations to Guadalupe-Blanco River Authority."

The Master District has entered into a Wastewater Operating Agreement pursuant to which the GBRA operates the 500,000 gpd wastewater treatment plant serving Sunfield.

- Master District -

On April 23, 2007, the District executed a Contract for Financing, Operation of Regional Waste Collection, Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage, including Water Quality Facilities (the "Master District Contract") with the Master District relating to the following facilities and services: the Master District wastewater collection system, the Master District water distribution system, the water supply system and wastewater transportation and treatment system (collectively, the "Master District Facilities"). The Master District Contract was approved by the voters of the District at an election held on May 12, 2007. Similar contracts have been executed between the Master District and the other Sunfield Districts. The Master District Contract provides that the District and all other Sunfield Districts that have executed similar contracts with the Master District pay a pro-rata share of debt service on Contract Revenue Bonds issued to finance the Master District Facilities based upon certified appraised valuation. The District is obligated to pay its pro rata share from the proceeds of the Contract Tax (as defined in the Master District Contract) for such purpose, or from any other legally available funds of the District. The Master District Contract also provides for operation and maintenance expenses for facilities constructed pursuant to the Master District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

The Master District has not yet issued any contract revenue bonds based upon the contracts with the other Sunfield Districts. The Master District is authorized to issue contract revenue bonds sufficient to complete acquisition and construction of the Master District Facilities. The District's pro rata share (and that of all other Sunfield Districts) of the debt service requirements on the contract revenue bonds is determined by

dividing the District's certified gross appraised value by the cumulative total of the certified gross appraised values of all the Sunfield Districts which are parties to the Master District Contract. The Master District Contract obligates the District to pay its pro rata share of debt service requirements on the contract revenue bonds from the proceeds of the Contract Tax, revenues derived from the operation of the District's water distribution and wastewater collection system or from another legally available funds of the District.

Each Sunfield District is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The internal facilities are financed with unlimited ad valorem tax bonds sold by each district. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Sunfield. In the event that the Master District fails to meet its obligations under the Master District Contract to provide Master District Facilities, each of the other Sunfield Districts has the right pursuant to its Master District Contract to design, acquire, construct, or expand the Master District Facilities needed to provide service to such district, and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual capital costs expended by such district for such Master District Facilities.

The District is further obligated to pay monthly charges for sewer services rendered pursuant to the Master District Contract. The monthly charges will be used to pay the District's share of operation and maintenance expenses of the Master District Facilities and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The District's share of operation and maintenance expenses and reserve requirements is determined by dividing the total number of LUEs for all of the Sunfield Districts within the service area by the number of LUEs for the District, as of the first day of each month. The District's monthly payment for operation and maintenance expenses is calculated by multiplying the District's pro rata share by the actual operation and maintenance expenses of the Master District.

Pursuant to the Master District Contract, the District is obligated to establish and maintain rates, fees and charges for services provided by the District's wastewater collection system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay the District's operation and maintenance expenses, and the District's obligations pursuant to the Master District Contract, including the District's pro rata share of the Master District's debt service requirements and monthly charges. All sums payable by the District pursuant to the Master District Contract are to be paid by the District without set off, counterclaim, abatement, suspension or diminution. If the District fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to cancel, in whole or in part, any reservation or allocation of capacity in the Master District's Facilities by the District in addition to the Master District's other remedies. As a practical matter, the District has no alternative provider of these services rendered under the Master District Contract.

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Historical Operations of the System

The following is a summary of the District's operating fund over the last four fiscal years. The figures for fiscal years ended September 30 of the years 2016, 2017, and 2018 were obtained from the District's annual financial reports, reference to which is hereby made. See "APPENDIX A." The figures below for the period ended June 30, 2019, are unaudited and have been compiled by the District's Financial Advisor based on reports from the District's bookkeeper.

| | <u>6/30/19*</u> | <u>9/30/18</u> | <u>9/30/17</u> | <u>9/30/16</u> |
|---------------------------------------|-------------------|------------------|-------------------|------------------|
| Revenues | | | | |
| Property Taxes | \$ 92,723 | \$121,861 | \$ 95,252 | \$ 15,853 |
| Penalties and Interest | 242 | - | 163 | 13 |
| Tap Connection and Inspection Fees | 101,250 | 108,450 | 75,600 | 26,100 |
| Master District Surplus Billings | 65,486 | 52,854 | 18,090 | 5,976 |
| Interest on Deposits and Investments | 2,445 | 965 | 425 | 21 |
| Total Revenues | <u>\$262,146</u> | <u>\$284,130</u> | <u>\$ 189,530</u> | <u>\$ 47,963</u> |
| Expenditures | | | | |
| Professional Fees | \$ 66,521 | \$137,416 | \$ 85,987 | \$ 9,746 |
| Contracted Services | 35,689 | 33,130 | 27,260 | 8,304 |
| Utilities | 6,267 | 5,656 | 2,965 | 278 |
| Administrative Expenditures | 12,225 | 11,099 | 11,971 | 7,800 |
| Total Expenditures | <u>\$ 120,702</u> | <u>\$187,301</u> | <u>\$ 128,183</u> | <u>\$ 26,128</u> |
| Excess Revenues (Expenditures) | \$ 141,444 | \$ 96,829 | \$ 61,347 | \$ 21,835 |

* Unaudited figures.

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LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Texas Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem property tax levied, without legal limit as to rate or amount, upon all taxable property within the District and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds; the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law, statutes, regulations, published rulings, and court decisions.

Bond Counsel has reviewed the information appearing in this Official Statement under the caption "THE DISTRICT - General," "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS - Legal Proceedings," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold, and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the District by The Muller Law Group, PLLC, Sugar Land, Texas, Disclosure Counsel. The fees of Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

No Material Adverse Change

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

TAX MATTERS

Opinion

In the opinion of Coats Rose, P.C., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) the Bonds will not be treated as "specified private activity bonds," the interest on which will not be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code").

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be

paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, and in addition, will rely on representations by the District and the Initial Purchaser with respect to matters solely within the knowledge of the District and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received, or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. 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 the ultimate outcome of the audit.

Federal Income Tax Accounting Treatment of Original Issue Discount

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an

amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the inside cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Bond for purposes of determining the amount of gain or loss recognized by such owner upon redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price plus the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership and redemption, sale or other disposition of such Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND

DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Not Qualified Tax-Exempt Obligations

The District did NOT designate the Bonds as “qualified tax-exempt obligations” for financial institutions.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond 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 material events, to the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system which is available at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data via EMMA annually.

The financial information and operating data which will be provided with respect to the District is found in “DISTRICT DEBT,” “TAX DATA,” and “APPENDIX A.” The District will update and provide this information via EMMA within six months after the end of each fiscal year. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (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-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners 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 or other obligated person within the meaning of CFR §240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, 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 the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. 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.”

Availability of Information

The District has agreed to provide the foregoing notices to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 and beneficial owners 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 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 operations of the District or the Developer, but only if 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 and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the United States Securities and Exchange Commission amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next 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

Due to an administrative oversight, the District did not timely file its annual financial information and operating data and the Developer's financial information for fiscal year 2016 as required pursuant to its prior continuing disclosure undertaking on or before March 31, 2017, and instead filed the information on October 5, 2017, and November 2, 2017. The District has filed a notice with respect to this late filing and has implemented procedures to prevent the untimely filing of such information in the future. Otherwise, during the last five years, the District has not failed to comply with its prior continuing disclosure undertakings.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District Engineer, the Developer, the Tax Assessor/Collector, the Hays Central Appraisal District, Travis Central Appraisal District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, orders and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Experts

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "SALE AND DISTRIBUTION OF THE BONDS - Securities Law," "THE BONDS," "TAXING PROCEDURES," "THE DISTRICT - General," "LEGAL MATTERS," "TAX MATTERS," "TAX MATTERS - Not Qualified Tax-Exempt Obligations," and "CONTINUING DISCLOSURE OF INFORMATION." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "DEVELOPMENT STATUS OF THE DISTRICT" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the section captioned "THE DEVELOPER," "DEVELOPMENT STATUS OF THE DISTRICT" and "SUNFIELD" has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Hays Central Appraisal District, Travis Central Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of

the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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.

This Official Statement was approved by the Board of Directors of Sunfield Municipal Utility District No. 3 as of the date shown on the first page hereof.

/s/ Kendall Bryant
President, Board of Directors
Sunfield Municipal Utility District No. 3

ATTEST:

/s/ Julie Liddell
Secretary, Board of Directors
Sunfield Municipal Utility District No. 3

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APPENDIX A
AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

HAYS AND TRAVIS COUNTIES, TEXAS

ANNUAL AUDIT REPORT

SEPTEMBER 30, 2018

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Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

February 6, 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sunfield Municipal
Utility District No. 3
Hays and Travis Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Sunfield Municipal Utility District No. 3, as of and for the year ended September 30, 2018, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of 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. 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 assessment of the risk 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 fund of Sunfield Municipal Utility District No. 3 as of September 30, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Emphasis of Matters

As discussed in Note 5 of the Notes to the Financial Statements, the District has substantial contingent liabilities to its developer and to other governmental entities. In addition, as discussed in Note 6 of the Notes to the Financial Statements, the District's tax base is concentrated in a small number of taxpayers, including the District's developer. Our opinions are not modified with respect to these matters.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 22 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards 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 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 23 to 37 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the 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, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has 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 it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were not audited.

North & Arizony, PLLC

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Sunfield Municipal Utility District No. 3 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2018.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of sewer, drainage and road services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures for water, sewer and drainage facilities from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and service revenues and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|--|---------------------|---------------------|-------------------|
| Current and other assets | \$ 593,213 | \$ 322,445 | \$ 270,768 |
| Capital assets | 41,340,479 | 19,518,502 | 21,821,977 |
| Total assets | <u>41,933,692</u> | <u>19,840,947</u> | <u>22,092,745</u> |
| Long-term liabilities | 42,048,011 | 20,129,038 | 21,918,973 |
| Other liabilities | 162,531 | 26,652 | 135,879 |
| Total liabilities | <u>42,210,542</u> | <u>20,155,690</u> | <u>22,054,852</u> |
| Net position: | | | |
| Invested in capital assets, net of related debt | (726,110) | (501,886) | (224,224) |
| Restricted | 353,304 | 188,346 | 164,958 |
| Unrestricted | 95,956 | (1,203) | 97,159 |
| Total net position | <u>\$ (276,850)</u> | <u>\$ (314,743)</u> | <u>\$ 37,893</u> |

Summary of Changes in Net Position

| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|---|---------------------|---------------------|------------------|
| Revenues: | | | |
| Property taxes, including related penalty and interest | \$ 348,214 | \$ 82,833 | \$ 265,381 |
| Charges for services | 161,304 | 93,853 | 67,451 |
| Other revenues | 8,127 | 2,009 | 6,118 |
| Total revenues | <u>517,645</u> | <u>178,695</u> | <u>338,950</u> |
| Expenses: | | | |
| Service operations | 188,203 | 128,183 | 60,020 |
| Debt service | 291,549 | 309,906 | (18,357) |
| Total expenses | <u>479,752</u> | <u>438,089</u> | <u>41,663</u> |
| Change in net position | 37,893 | (259,394) | 297,287 |
| Net position, beginning of year | <u>(314,743)</u> | <u>(55,349)</u> | <u>(259,394)</u> |
| Net position, end of year | <u>\$ (276,850)</u> | <u>\$ (314,743)</u> | <u>\$ 37,893</u> |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2018, were \$564,799, an increase of \$264,411 from the prior year.

The General Fund balance increased by \$96,829, in accordance with the District's financial plan.

The Debt Service Fund balance increased by \$118,527, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$49,055, as proceeds from the Series 2017 bonds and interest earnings on investments exceeded authorized expenditures.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A detailed comparison of budgeted and actual revenues and expenditures is presented on Page 22 of this report. The budgetary fund balance as of September 30, 2018, was expected to be \$100,893 and the actual end of year fund balance was \$197,722.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

| | <u>Capital Assets (Net of Accumulated Depreciation)</u> | | |
|--------------------------|---|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> | <u>Change</u> |
| Construction in progress | <u>\$ 41,340,479</u> | <u>\$ 19,518,502</u> | <u>\$ 21,821,977</u> |

Changes to capital assets during the fiscal year ended September 30, 2015, are summarized as follows:

| | |
|--|----------------------|
| Additions: | |
| Roads and utilities constructed by developer | <u>\$ 21,821,977</u> |

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2018, are summarized as follows:

| | |
|--|---------------------|
| Bonded debt payable, beginning of year | \$ 3,525,000 |
| Bonds sold | 1,560,000 |
| Bonds paid | <u>(45,000)</u> |
| Bonded debt payable, end of year | <u>\$ 5,040,000</u> |

At September 30, 2018, the District had \$52,740,000 unlimited tax bonds authorized but unissued for road purposes; \$63,550,000 authorized but unissued for water, sanitary sewer and drainage purposes; and \$5,025,000 authorized but unissued for park and recreation facilities.

The District's bonds are not rated.

On October 11, 2018, the District issued its Series 2018 Unlimited Tax Road Bonds in the amount of \$7,075,000.

As further described in Note 5 of the Notes to the Financial Statements, the District has substantial contingent obligations to its developer for funds advanced on behalf of the District and for contractual obligations to other governmental entities. At September 30, 2018, the estimated amount due to the developer was \$42,168,685. In addition, the developer has been advancing funds for the construction of Master District Facilities and for debt service and water reservation fees payable to the Guadalupe-Blanco River Authority (the "GBRA"). At September 30, 2018, the developer's records indicate that the Master District owes the developer approximately \$26,390,000 for these purposes.

ADDITIONAL RELEVANT FACTORS

Property Tax Base

The District's tax base increased approximately \$20,510,000 for the 2017 tax year (about 223%), primarily due to the addition of new houses to the tax base.

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District and the other Sunfield districts. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5 of the Notes to the Financial Statements.

Relationship to the City of Buda

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Buda, the District must conform to a City of Buda ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Buda. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

In conjunction with granting its consent to the creation of the District, the City of Buda and the District entered into an agreement which provides that the City must review and approve each issuance of bonds by the District. In the event the developer is in breach of certain agreements with the City, the City may refuse to grant such consent until satisfactory arrangements are made with the City. The City has consented to the issuance of the issued bonds.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2018

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments (Note 3)</u> | <u>Statement of Net Position</u> |
|--|-------------------|-------------------------|-----------------------------|-------------------|---------------------------------|--|
| ASSETS | | | | | | |
| Cash, including interest-bearing accounts, Note 7 | \$ 80,238 | \$ | \$ | \$ 80,238 | \$ | \$ 80,238 |
| Temporary investments, at cost, Note 7 | 20,860 | 360,442 | 74,668 | 455,970 | | 455,970 |
| Receivables: | | | | | | |
| Property taxes | 330 | 1,793 | | 2,123 | | 2,123 |
| Master District, Note 9 | 14,883 | | | 14,883 | | 14,883 |
| Other district | 6,300 | | | 6,300 | | 6,300 |
| Prepaid expenditures | 10,068 | | | 10,068 | | 10,068 |
| Maintenance taxes collected not yet transferred from other fund | 68,033 | | | 68,033 | (68,033) | 0 |
| Operating reserve at Master District, Note 9 | 23,631 | | | 23,631 | | 23,631 |
| Capital assets not being depreciated, Note 4 | | | | 0 | 41,340,479 | 41,340,479 |
| Total assets | <u>\$ 224,343</u> | <u>\$ 362,235</u> | <u>\$ 74,668</u> | <u>\$ 661,246</u> | <u>41,272,446</u> | <u>41,933,692</u> |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 26,291 | \$ | \$ | \$ 26,291 | | 26,291 |
| Accrued interest payable | | | | 0 | 15,566 | 15,566 |
| Maintenance taxes collected not yet transferred to other fund | | 68,033 | | 68,033 | (68,033) | 0 |
| Long-term liabilities, Note 5: | | | | | | |
| Due within one year | | | | 0 | 120,674 | 120,674 |
| Due in more than one year | | | | 0 | 42,048,011 | 42,048,011 |
| Total liabilities | <u>26,291</u> | <u>68,033</u> | <u>0</u> | <u>94,324</u> | <u>42,116,218</u> | <u>42,210,542</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Property tax revenues | <u>330</u> | <u>1,793</u> | <u>0</u> | <u>2,123</u> | <u>(2,123)</u> | <u>0</u> |
| FUND BALANCES / NET POSITION | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Operating reserve at Master District, Note 9 | 23,631 | | | 23,631 | (23,631) | 0 |
| Restricted for bond interest, Note 5 | | 105,451 | | 105,451 | (105,451) | 0 |
| Assigned to: | | | | | | |
| Debt service | | 186,958 | | 186,958 | (186,958) | 0 |
| Capital projects | | | 74,668 | 74,668 | (74,668) | 0 |
| Unassigned | <u>174,091</u> | | | <u>174,091</u> | <u>(174,091)</u> | <u>0</u> |
| Total fund balances | <u>197,722</u> | <u>292,409</u> | <u>74,668</u> | <u>564,799</u> | <u>(564,799)</u> | <u>0</u> |
| Total liabilities, deferred inflows, and fund balances | <u>\$ 224,343</u> | <u>\$ 362,235</u> | <u>\$ 74,668</u> | <u>\$ 661,246</u> | | |
| Net position: | | | | | | |
| Invested in capital assets, net of related debt, Note 4 | | | | | (726,110) | (726,110) |
| Restricted for debt service | | | | | 278,636 | 278,636 |
| Restricted for capital projects | | | | | 74,668 | 74,668 |
| Unrestricted | | | | | 95,956 | 95,956 |
| Total net position | | | | | <u>\$ (276,850)</u> | <u>\$ (276,850)</u> |

The accompanying notes are an integral part of the financial statements.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments (Note 3) | Statement of Activities |
|---|-------------------|-------------------------|-----------------------------|--------------------|-------------------------|-------------------------------|
| REVENUES | | | | | | |
| Property taxes | \$ 121,861 | \$ 224,032 | \$ | \$ 345,893 | \$ 2,123 | \$ 348,016 |
| Surplus Master District billings, Note 9 | 52,854 | | | 52,854 | | 52,854 |
| Penalty, interest and other | | 198 | | 198 | | 198 |
| Tap connection and inspection fees | 108,450 | | | 108,450 | | 108,450 |
| Accrued interest on bonds received at date of sale | | 5,218 | | 5,218 | (5,218) | 0 |
| Interest on deposits and investments | <u>965</u> | <u>6,684</u> | <u>478</u> | <u>8,127</u> | | <u>8,127</u> |
| Total revenues | <u>284,130</u> | <u>236,132</u> | <u>478</u> | <u>520,740</u> | <u>(3,095)</u> | <u>517,645</u> |
| EXPENDITURES / EXPENSES | | | | | | |
| Service operations: | | | | | | |
| Professional fees | 137,416 | | | 137,416 | | 137,416 |
| Contracted services | 33,130 | | | 33,130 | | 33,130 |
| Utilities | 5,656 | | | 5,656 | | 5,656 |
| Administrative expenditures | 11,099 | | | 11,099 | | 11,099 |
| Capital outlay / non-capital outlay | | | 1,255,526 | 1,255,526 | (1,254,624) | 902 |
| Debt service: | | | | | | |
| Principal retirement | | 45,000 | | 45,000 | (45,000) | 0 |
| Bond issuance expenditures | | | 106,890 | 106,890 | | 106,890 |
| Interest and fees | | <u>178,917</u> | | <u>178,917</u> | <u>5,742</u> | <u>184,659</u> |
| Total expenditures / expenses | <u>187,301</u> | <u>223,917</u> | <u>1,362,416</u> | <u>1,773,634</u> | <u>(1,293,882)</u> | <u>479,752</u> |
| Excess (deficiency) of revenues over expenditures | <u>96,829</u> | <u>12,215</u> | <u>(1,361,938)</u> | <u>(1,252,894)</u> | <u>1,290,787</u> | <u>37,893</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Bonds issued, Note 5 | | 149,007 | 1,410,993 | 1,560,000 | (1,560,000) | 0 |
| Bond issuance discount, Note 5 | | <u>(42,695)</u> | | <u>(42,695)</u> | <u>42,695</u> | <u>0</u> |
| Total other financing sources (uses) | <u>0</u> | <u>106,312</u> | <u>1,410,993</u> | <u>1,517,305</u> | <u>(1,517,305)</u> | <u>0</u> |
| Net change in fund balances / net position | 96,829 | 118,527 | 49,055 | 264,411 | (226,518) | 37,893 |
| Beginning of year | <u>100,893</u> | <u>173,882</u> | <u>25,613</u> | <u>300,388</u> | <u>(615,131)</u> | <u>(314,743)</u> |
| End of year | <u>\$ 197,722</u> | <u>\$ 292,409</u> | <u>\$ 74,668</u> | <u>\$ 564,799</u> | <u>\$ (841,649)</u> | <u>\$ (276,850)</u> |

The accompanying notes are an integral part of the financial statements.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2018

NOTE 1: REPORTING ENTITY

Sunfield Municipal Utility District No. 3 (the "District") was created by an order of the Texas Commission on Environmental Quality (the "TCEQ") dated June 27, 2005 as Winfield Municipal Utility District No. 3 of Hays and Travis Counties. By order of the TCEQ dated April 10, 2006, the name of the District was changed to Sunfield Municipal Utility District No. 3. The District operates accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the TCEQ.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. In addition, pursuant to V.T.C.A. Special District Code, Chapter 8200, the District is authorized to construct, acquire, improve, maintain or operate roads located within or outside its boundaries. In addition, the District is empowered, if approved by the electorate, the TCEQ and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of 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. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are either nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|---------------------|-------------|
| Plant and equipment | 10-45 years |
| Underground lines | 45 years |
| Roads | 45 years |

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

| | | |
|---|---------------------|---------------------|
| Total fund balances, end of year | | \$ 564,799 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds : | | |
| Total capital assets, net | | 41,340,479 |
| Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: | | |
| Bonds payable | \$ (5,040,000) | |
| Issuance discount (to be amortized as interest expense) | 141,902 | |
| Due to developer for operating advances | (102,096) | |
| Due to developer for construction | <u>(37,168,491)</u> | (42,168,685) |
| Some receivables that do not provide current financial resources are not reported as receivables in the funds: | | |
| Uncollected property taxes | | 2,123 |
| Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds: | | |
| Accrued interest | | <u>(15,566)</u> |
| Net position, end of year | | <u>\$ (276,850)</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

| | | |
|--|----------------|------------------|
| Total net change in fund balances | | \$ 264,411 |
| <p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p> | | |
| Capital outlay | | 1,254,624 |
| <p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p> | | |
| Bonds issued | \$ (1,560,000) | |
| Principal reduction | <u>45,000</u> | (1,515,000) |
| <p>The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p> | | |
| Issuance discount, net of amortization | | 36,152 |
| <p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p> | | |
| Uncollected property taxes | | 2,123 |
| <p>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 funds:</p> | | |
| Accrued interest | | <u>(4,417)</u> |
| Change in net position | | <u>\$ 37,893</u> |

NOTE 4: CAPITAL ASSETS

At September 30, 2018, "Invested in capital assets, net of related debt" was \$(726,110). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Due to contractual obligations, other governmental entities may assume the maintenance and other incidents of ownership of certain water and sewer facilities constructed by the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

Capital asset activity for the fiscal year ended September 30, 2018, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|----------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Construction in progress | <u>\$ 19,518,502</u> | <u>\$ 21,821,977</u> | <u>\$ 0</u> | <u>\$ 41,340,479</u> |
| Changes to capital assets: | | | | |
| Increase in liability to developer | | <u>\$ 21,821,977</u> | <u>\$ 0</u> | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

The following note does not include the Series 2018 Unlimited Tax Road Bonds in the amount of \$7,075,000 which were issued on October 11, 2018.

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|--|------------------------------|----------------------|---------------------|---------------------------|--------------------------------|
| Bonds payable | \$ 3,525,000 | \$ 1,560,000 | \$ 45,000 | \$ 5,040,000 | \$ 130,000 |
| Less deferred amounts: | | | | | |
| For issuance (discounts) premiums | <u>(105,750)</u> | <u>(42,695)</u> | <u>(6,543)</u> | <u>(141,902)</u> | <u>(9,326)</u> |
| Total bonds payable | <u>3,419,250</u> | <u>1,517,305</u> | <u>38,457</u> | <u>4,898,098</u> | <u>120,674</u> |
| Due to developer for operating advances (see below) | 102,096 | | | 102,096 | ----- |
| Due to developer for construction (see below) | <u>16,601,138</u> | <u>21,822,879</u> | <u>1,255,526</u> | <u>37,168,491</u> | ----- |
| Total due to developer | <u>16,703,234</u> | <u>21,822,879</u> | <u>1,255,526</u> | <u>37,270,587</u> | <u>0</u> |
| Total long-term liabilities | <u>\$ 20,122,484</u> | <u>\$ 23,340,184</u> | <u>\$ 1,293,983</u> | <u>\$ 42,168,685</u> | <u>\$ 120,674</u> |

As of September 30, 2018, the debt service requirements on the bonds outstanding were as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|---------------------|---------------------|---------------------|
| 2019 | \$ 130,000 | \$ 186,788 | \$ 316,788 |
| 2020 | 135,000 | 183,388 | 318,388 |
| 2021 | 135,000 | 179,738 | 314,738 |
| 2022 | 145,000 | 175,988 | 320,988 |
| 2023 | 150,000 | 171,863 | 321,863 |
| 2024 - 2028 | 855,000 | 785,984 | 1,640,984 |
| 2029 - 2033 | 1,035,000 | 624,172 | 1,659,172 |
| 2034 - 2038 | 1,260,000 | 406,698 | 1,666,698 |
| 2039 - 2042 | <u>1,195,000</u> | <u>127,124</u> | <u>1,322,124</u> |
| | <u>\$ 5,040,000</u> | <u>\$ 2,841,743</u> | <u>\$ 7,881,743</u> |

| | |
|--|---------------|
| Road bonds voted | \$ 57,825,000 |
| Road bonds approved for sale and sold | 5,085,000 |
| Road bonds voted and not issued | 52,740,000 |
| Water, sewer and drainage bonds voted | 63,550,000 |
| Water, sewer and drainage bonds approved for sale and sold | 0 |
| Water, sewer and drainage bonds voted and not issued | 63,550,000 |
| Parks and recreation bonds voted | 5,025,000 |
| Parks and recreation bonds approved for sale and sold | 0 |
| Parks and recreation bonds voted and not issued | 5,025,000 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The bond issues payable at September 30, 2018, were as follows:

| | <u>Series 2016</u> | <u>Series 2017</u> |
|--|------------------------|------------------------|
| Amounts outstanding, September 30, 2018 | \$3,525,000 | \$1,515,000 |
| Interest rates | 3.00% to 4.25% | 1.75% to 4.00% |
| Maturity dates, serially beginning/ending | September 1, 2019/2042 | September 1, 2019/2042 |
| Interest payment dates | March 1/September 1 | March 1/September 1 |
| Callable dates | March 1, 2024* | March 1, 2025* |

*Or any date thereafter, in whole or in part, callable at par plus unpaid accrued interest to the date fixed for redemption.

In accordance with the Series 2016 and Series 2017 Bond Orders, a portion of the bond proceeds were deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

| | | | |
|--|--|-----------------|-------------------|
| Bond interest reserve, beginning of year: | | | |
| Series 2016 | | | \$ 172,437 |
| 24 months' interest from sale of Series 2017 bonds | | \$ 106,312 | |
| Accrued interest received at date of sale | | <u>5,218</u> | 111,530 |
| Deduct appropriation for bond interest paid: | | | |
| Series 2016 | | (133,788) | |
| Series 2017 | | <u>(44,728)</u> | <u>(178,516)</u> |
| Bond interest reserve, end of year: | | | |
| Series 2016 | | 38,649 | |
| Series 2017 | | <u>66,802</u> | <u>\$ 105,451</u> |

Developer Construction Commitments, Liabilities and Advances

The developer within the District has advanced funds to the District to cover initial operating deficits. At September 30, 2018, the cumulative amount of unreimbursed developer advances was \$102,096. These amounts have been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5. This amount has been recorded as a decrease in "Unrestricted net position" in the government-wide financial statements. Without this decrease, "Unrestricted net position" would have a balance of \$198,052.

The developer within the District has constructed certain underground facilities within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of future bond issues to the extent approved by the Texas Commission on Environmental Quality. The developer stated that unreimbursed cost of the construction in progress at September 30, 2018, was \$37,168,491. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent Liabilities

The District is part of the master-planned community of "Sunfield." Sunfield is comprised of the District, Sunfield Municipal Utility District No. 1, Sunfield Municipal Utility District No. 2, and Sunfield Municipal Utility District No. 4 ("SMUD No. 4"), collectively, the "Participants." On April 23, 2007, the District executed a "Contract for Financing, Operation of Regional Waste Collection Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage, including Water Quality Facilities" ("Master District Contract") with SMUD No. 4 in its capacity as the "Master District."

Pursuant to the contract, the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities ("Master District Facilities") and each Participant will pay its pro rata share of such cost. Each Participant is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Sunfield. From time to time, the Master District will issue its Contract Revenue Bonds, and each Participant will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries. The District is obligated to pay its pro rata share from the proceeds of a Contract Tax for such purpose, or from any other legally available funds of the District. The Master District has not issued any Contract Revenue Bonds.

The Master District is a party to various agreements with the Guadalupe-Blanco River Authority ("GBRA") pursuant to which the Master District has acquired a supply of water and the transportation of such water to Sunfield. Pursuant to such agreements, the Master District is reserving untreated water, paying for the costs of treating water and its pro rata share of the annual debt service on certain water treatment facilities and water trunklines conveying water to Sunfield. As an obligation of the Master District, such payments are secured by the unlimited ad valorem taxing authority of each of the Participants. Such payments are currently being made with monies advanced to the Master District by the developer. In the event the developer and/or the Sunfield districts fail to advance monies to the Master District to make such payments, the Sunfield districts would be required to make their pro rata share of such payments based upon their assessed valuation. Such payments may be substantial.

The developer has been advancing funds for the construction of Master District Facilities and for debt service and water reservation fees payable to the GBRA. At September 30, 2018, the developer's records indicate that the Master District owes the developer approximately \$26,390,000 for these purposes. The allocation of the amount due to the developer to the participant districts has not been determined.

Bonds issued by the District and the Master District for water, sewer and drainage facilities are subject to prior approval by the Texas Commission on Environmental Quality ("TCEQ"). Such agency has in place certain "economic feasibility rules" which for districts located in Hays and Travis Counties limits the amount of bonds which can be issued to an amount that can be amortized with a tax rate not exceeding \$1.20 per \$100 valuation, including all other obligations of the issuer secured by ad valorem taxes. Bonds to be issued by the District for roads are not currently subject to such "economic feasibility rules" but are subject to a "no growth tax rate limitation" of \$2.50 per \$100 valuation imposed by the Office of the Attorney General of Texas.

In conjunction with granting its consent to the creation of the District, the City of Buda and the District entered into an agreement which provides that the City must review and approve each issuance of bonds by the District. In the event the developer is in breach of certain agreements with the City, the City may refuse to grant such consent until satisfactory arrangements are made with the City. The City has consented to the issuance of the issued bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES AND CONCENTRATION OF TAX BASE

The Hays Central Appraisal District and Travis Central Appraisal District have the responsibility for appraising property for all taxing units within the respective counties as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

At an election held May 12, 2007, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District. There is no tax limitation on the rate or amount of taxes that can be levied to (1) pay debt service on wastewater and drainage bonds; (2) to pay debt service on road bonds; (3) to pay debt service on parks and recreation facilities bonds; (4) to satisfy its contractual obligations to the Master District; and (5) to satisfy its contractual obligations to the GBRA.

On September 6, 2017, the District levied the following ad valorem taxes for the 2017 tax year on the adjusted taxable valuation of \$29,713,781:

| | <u>Rate</u> | <u>Amount</u> |
|-------------------|------------------|-------------------|
| Road debt service | \$ 0.7600 | \$ 225,825 |
| Maintenance | <u>0.1400</u> | <u>41,599</u> |
| | <u>\$ 0.9000</u> | <u>\$ 267,424</u> |

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

| | |
|--|-------------------|
| 2017 tax year total property tax levy | \$ 267,424 |
| Appraisal district adjustments to prior year taxes | <u>80,592</u> |
| Statement of Activities property tax revenues | <u>\$ 348,016</u> |

Concentration of Tax Base

The District's tax base is concentrated in a small number of taxpayers. The District's developer owns a substantial portion of land within the District and the other Sunfield districts. If any one of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet the debt service obligations described in Note 5.

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$455,970.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

| | |
|-----------------------|-------------------|
| Temporary investments | \$ <u>360,442</u> |
|-----------------------|-------------------|

Capital Projects Fund

For construction of capital assets:

| | |
|-----------------------|------------------|
| Temporary investments | \$ <u>74,668</u> |
|-----------------------|------------------|

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2018, the District had comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate and consultant's crime coverage of \$10,000.

NOTE 9: CONTRACTS WITH OTHER GOVERNMENTAL ENTITIES

Master District Contract

The District is part of the master-planned community of "Sunfield." Sunfield is comprised of the District, Sunfield Municipal Utility District No. 1, Sunfield Municipal Utility District No. 2, and Sunfield Municipal Utility District No. 4 ("SMUD No. 4"), collectively, the "Participants." On April 23, 2007, the District executed a "Contract for Financing, Operation of Regional Waste Collection Treatment and Disposal Facilities, Regional Water Supply and Delivery Facilities and Regional Drainage, including Water Quality Facilities" ("Master District Contract") with SMUD No. 4 in its capacity as the "Master District."

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Pursuant to the contract, the Master District will provide the regional water, sanitary sewer and drainage facilities and capacities ("Master District Facilities") and each Participant will pay its pro rata share of such cost. Each Participant is responsible for constructing its internal water distribution, wastewater collection and storm drainage lines within its respective boundaries. The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within Sunfield. From time to time, the Master District will issue its Contract Revenue Bonds, and each Participant will pay a portion of the debt service thereon based upon the amount of ad valorem tax base located within its boundaries. The District is obligated to pay its pro rata share from the proceeds of a Contract Tax for such purpose, or from any other legally available funds of the District. The Master District has not issued any Contract Revenue Bonds. See Note 5 for a further discussion of the obligations of the District regarding the construction costs of the Master District Facilities.

The District is further obligated to pay monthly charges for water and sewer services rendered pursuant to the Master District Contract. Participants will be billed monthly by the Master District for (1) the pro rata share of the Master District's monthly operation and maintenance expense, based upon usage or the number of equivalent single family residential customers, whichever is appropriate and (2) any costs incurred by the Master District for the operation and maintenance of the District's facilities. Each Participant will also be credited for the revenues earned by the Master District for services to customers within the Participant's boundaries. If, at the end of a fiscal year, revenues generated by customers in the Participant's boundaries exceed the costs of operating and maintaining the Master District and Participant facilities, the Master District will refund the surplus revenues or credit the Participant for the amount in the next fiscal year. During the year ended September 30, 2018, the District recorded surplus billings from the Master District in the amount of \$52,854. At that date, \$14,883 was receivable from the Master District.

The contract authorizes the establishment of an operating and maintenance reserve by the Master District equal to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. The Master District may adjust the reserve as needed, not less than annually. As of September 30, 2018, the Master District had contributed \$23,631 of the Master District's \$105,041 operating reserve.

Agreements Regarding Wholesale Water Supply and Wastewater Treatment

The Master District is a party to various agreements with the Guadalupe-Blanco River Authority ("GBRA") pursuant to which the Master District has acquired a supply of water and the transportation of such water to Sunfield. Pursuant to such agreements, the Master District is reserving untreated water, paying for the costs of treating water and its pro rata share of the annual debt service on certain water treatment facilities and water trunklines conveying water to Sunfield. As an obligation of the Master District, such payments are secured by the unlimited ad valorem taxing authority of each of the Participants. Such payments are currently being made with monies advanced to the Master District by the developer (see Note 5).

The Master District has entered into a Wastewater Operating Agreement pursuant to which the GBRA operates the 250,000 gpd wastewater treatment plant serving Sunfield.

Water Utility Service Agreement

On October 1, 2007, amended and restated February 15, 2012 (as amended July 7, 2015 and September 1, 2018), the District and Sunfield Municipal Utility District Nos. 1 and 4 entered into a water utility service agreement with Goforth Special Utility District ("Goforth"). The agreement provides that each of the Participants is responsible for the acquisition and construction of all internal facilities necessary for the distribution of water to retail customers within its boundaries. As these facilities are acquired or constructed, the facilities will be conveyed to Goforth. Retail water service will be provided to customers in each district by Goforth in accordance with its standard rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Billing and Collection Agreement

On February 15, 2012, the Master District entered into a billing and collection agreement with Goforth. The agreement provides that Goforth will serve as agent for the Master District for the purposes of billing and collecting sanitary sewer charges for water customers of Goforth who: (1) are recipients of sanitary sewer service from the Master District; (2) are located within certain property within the Sunfield districts, and any other areas mutually agreed to by Goforth and the Master District in the future; and (3) have executed a sanitary sewer service agreement with the Master District. Retail sewer service will be billed to customers in each district by Goforth in accordance with in accordance with the Master District's rate order.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|--|-------------------------|-------------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Property taxes | \$ 21,713 | \$ 21,713 | \$ 121,861 | \$ 100,148 |
| Surplus Master District billings | 61,447 | 61,447 | 52,854 | (8,593) |
| Penalty and other | | | 0 | 0 |
| Tap connection and inspection fees | 81,000 | 81,000 | 108,450 | 27,450 |
| Interest on deposits and investments | <u>150</u> | <u>150</u> | <u>965</u> | <u>815</u> |
| TOTAL REVENUES | <u>164,310</u> | <u>164,310</u> | <u>284,130</u> | <u>119,820</u> |
| EXPENDITURES | | | | |
| Service operations: | | | | |
| Purchased services | 635 | 635 | 0 | (635) |
| Professional fees | 83,000 | 83,000 | 137,416 | 54,416 |
| Contracted services | 34,750 | 34,750 | 33,130 | (1,620) |
| Utilities | 2,500 | 2,500 | 5,656 | 3,156 |
| Repairs, maintenance and other operating expenditures | 27,800 | 27,800 | 0 | (27,800) |
| Administrative expenditures | 15,625 | 15,625 | 11,099 | (4,526) |
| Capital outlay | | | <u>0</u> | <u>0</u> |
| TOTAL EXPENDITURES | <u>164,310</u> | <u>164,310</u> | <u>187,301</u> | <u>22,991</u> |
| EXCESS REVENUES (EXPENDITURES) | 0 | 0 | 96,829 | 96,829 |
| FUND BALANCE, BEGINNING OF YEAR | <u>100,893</u> | <u>100,893</u> | <u>100,893</u> | <u>0</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 100,893</u> | <u>\$ 100,893</u> | <u>\$ 197,722</u> | <u>\$ 96,829</u> |

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

The accompanying notes are an integral part of the financial statements.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

SEPTEMBER 30, 2018

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
Debt Service Fund not applicable.
- [X] TSI-8. Board Members, Key Personnel and Consultants

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2018

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|---|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input checked="" type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input checked="" type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other | | |

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent) (Rates from Master District Rate Order):

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1000 Gallons Over Minimum</u> | <u>Usage Levels</u> |
|--------------|-----------------------|----------------------|----------------------|---|--|
| WATER: | \$7.00 | 0 | N | \$2.25 3.25 5.25 | 1 to 6,000 6,001 to 12,000 Over 12,000 |
| WASTEWATER: | \$44.00 | 0 | N | \$4.25 | Over 0 |
| STORM WATER: | \$1.00 | | | | |

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$33.50 Wastewater: \$86.50 Storm Water: \$1.00

b. Water and Wastewater Retail Connections:

Not Applicable. See Note 9 of the Notes to the Financial Statements.

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Not Applicable. See Note 9 of the Notes to the Financial Statements.

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees? Yes No

If yes, date of the most recent Commission Order: _____

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3EXPENDITURESFOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|------------------------------|-------------------------|----------------------------------|--------------------------------------|---|
| CURRENT | | | | |
| Professional fees: | | | | |
| Auditing | \$ 6,500 | \$ | \$ | 6,500 |
| Legal | 23,097 | | | 23,097 |
| Engineering | 107,819 | | | 107,819 |
| | <u>137,416</u> | <u>0</u> | <u>0</u> | <u>137,416</u> |
| Contracted services: | | | | |
| Bookkeeping | 31,275 | | | 31,275 |
| Tax assessor-collector | 33 | | | 33 |
| Appraisal district | 1,822 | | | 1,822 |
| | <u>33,130</u> | <u>0</u> | <u>0</u> | <u>33,130</u> |
| Utilities | <u>5,656</u> | <u>0</u> | <u>0</u> | <u>5,656</u> |
| Administrative expenditures: | | | | |
| Director's fees | 4,050 | | | 4,050 |
| Office supplies and postage | 1,960 | | | 1,960 |
| Insurance | 2,992 | | | 2,992 |
| Other | 2,097 | | | 2,097 |
| | <u>11,099</u> | <u>0</u> | <u>0</u> | <u>11,099</u> |
| CAPITAL OUTLAY | | | | |
| Authorized expenditures | <u>0</u> | <u>0</u> | <u>1,255,526</u> | <u>1,255,526</u> |
| DEBT SERVICE | | | | |
| Principal retirement | <u>0</u> | <u>45,000</u> | <u>0</u> | <u>45,000</u> |
| Bond issuance expenditures | <u>0</u> | <u>0</u> | <u>106,890</u> | <u>106,890</u> |
| Interest and fees: | | | | |
| Interest | | 178,517 | | 178,517 |
| Paying agent fees | | 400 | | 400 |
| | <u>0</u> | <u>178,917</u> | <u>0</u> | <u>178,917</u> |
| TOTAL EXPENDITURES | <u>\$ 187,301</u> | <u>\$ 223,917</u> | <u>\$ 1,362,416</u> | <u>\$ 1,773,634</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|---|-------------------------|----------------------------------|--------------------------------------|---|
| SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS | | | | |
| Cash receipts from revenues excluding maintenance taxes | \$ 153,854 | \$ 236,132 | \$ 478 | \$ 390,464 |
| Maintenance tax receipts | | 121,861 | | 121,861 |
| Transfer of maintenance taxes | 53,828 | | | 53,828 |
| Proceeds from sale of bonds | | <u>106,312</u> | <u>1,410,993</u> | <u>1,517,305</u> |
| TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED | <u>207,682</u> | <u>464,305</u> | <u>1,411,471</u> | <u>2,083,458</u> |
| APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS | | | | |
| Cash disbursements for: | | | | |
| Current expenditures | 183,067 | | | 183,067 |
| Capital outlay | | | 1,255,526 | 1,255,526 |
| Debt service | | 223,917 | 106,890 | 330,807 |
| Prepaid expenditures | 7,076 | | | 7,076 |
| Increase in operating reserve at Master District | 19,610 | | | 19,610 |
| Transfer of maintenance taxes | | <u>53,828</u> | | <u>53,828</u> |
| TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED | <u>209,753</u> | <u>277,745</u> | <u>1,362,416</u> | <u>1,849,914</u> |
| INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS | (2,071) | 186,560 | 49,055 | 233,544 |
| DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR | <u>103,169</u> | <u>173,882</u> | <u>25,613</u> | <u>302,664</u> |
| DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR | <u>\$ 101,098</u> | <u>\$ 360,442</u> | <u>\$ 74,668</u> | <u>\$ 536,208</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

SCHEDULE OF TEMPORARY INVESTMENTS

SEPTEMBER 30, 2018

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Year End Balance</u> | <u>Accrued Interest Receivable</u> |
|------------------------------|--------------------------|--------------------------|-----------------------------|--|
| GENERAL FUND | | | | |
| TexPool | | | | |
| No. 7928000004 | Market | On demand | \$ <u>20,860</u> | \$ <u>0</u> |
| DEBT SERVICE FUND | | | | |
| TexPool | | | | |
| No. 7928000003 | Market | On demand | 360,391 | 0 |
| No. 7928000001 | Market | On demand | <u>51</u> | <u>0</u> |
| | | | \$ <u>360,442</u> | \$ <u>0</u> |
| CAPITAL PROJECTS FUND | | | | |
| TexPool | | | | |
| No. 7928000002 | Market | On demand | 26,009 | 0 |
| No. 7928000005 | Market | On demand | <u>48,659</u> | <u>0</u> |
| | | | \$ <u>74,668</u> | \$ <u>0</u> |
| Total All Funds | | | \$ <u>455,970</u> | \$ <u>0</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>Maintenance Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|-----------------------------------|
| RECEIVABLE, BEGINNING OF YEAR | \$ 0 | \$ 0 |
| Additions and corrections to prior year taxes | <u>80,592</u> | <u>0</u> |
| Adjusted receivable, beginning of year | 80,592 | 0 |
| 2017 ADJUSTED TAX ROLL | <u>41,599</u> | <u>225,825</u> |
| Total to be accounted for | 122,191 | 225,825 |
| Tax collections: Current tax year | (41,269) | (224,032) |
| Prior tax years | <u>(80,592)</u> | <u>0</u> |
| RECEIVABLE, END OF YEAR | <u>\$ 330</u> | <u>\$ 1,793</u> |
| RECEIVABLE, BY TAX YEAR | | |
| 2017 | <u>\$ 330</u> | <u>\$ 1,793</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2013</u> |
|---|--------------------------|-------------------------|-----------------------|-----------------------|
| Land | \$ 18,405,072 | \$ 9,264,722 | \$ 7,658,500 | \$ 6,286,588 |
| Improvements | 12,480,610 | 7,595,750 | 73,920 | 145,330 |
| Personal property | 41,976 | 4,155 | 2,507 | 2,387 |
| Less exemptions | <u>(1,213,877)</u> | <u>(7,660,970)</u> | <u>(7,085,558)</u> | <u>(6,352,376)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 29,713,781</u> | <u>\$ 9,203,657</u> | <u>\$ 649,369</u> | <u>\$ 81,929</u> |
| TAX RATES PER \$100 VALUATION | | | | |
| Road debt service tax rates | \$ 0.76000 | \$ 0.00000 | \$ 0.00000 | \$ 0.00000 |
| Maintenance tax rates* | <u>0.14000</u> | <u>0.90000</u> | <u>0.90000</u> | <u>0.90000</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 0.90000</u> | <u>\$ 0.90000</u> | <u>\$ 0.90000</u> | <u>\$ 0.90000</u> |
| TAX ROLLS | <u>\$ 267,424</u> | <u>\$ 82,833</u> | <u>\$ 27,678</u> | <u>\$ 4,516</u> |
| PERCENT OF TAXES COLLECTED TO TAXES LEVIED | <u>99.2 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |

*Maximum tax rate approved by voters on May 12, 2007: \$1.00

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS
SEPTEMBER 30, 2018

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2016</u> | | |
|--|--|--|---------------------|
| | <u>Principal Due September 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2019 | \$ 90,000 | \$ 133,788 | \$ 223,788 |
| 2020 | 95,000 | 131,088 | 226,088 |
| 2021 | 95,000 | 128,238 | 223,238 |
| 2022 | 100,000 | 125,388 | 225,388 |
| 2023 | 105,000 | 122,388 | 227,388 |
| 2024 | 110,000 | 119,238 | 229,238 |
| 2025 | 115,000 | 115,938 | 230,938 |
| 2026 | 120,000 | 112,344 | 232,344 |
| 2027 | 125,000 | 108,294 | 233,294 |
| 2028 | 130,000 | 103,918 | 233,918 |
| 2029 | 135,000 | 99,368 | 234,368 |
| 2030 | 140,000 | 94,474 | 234,474 |
| 2031 | 145,000 | 89,224 | 234,224 |
| 2032 | 150,000 | 83,788 | 233,788 |
| 2033 | 155,000 | 77,788 | 232,788 |
| 2034 | 160,000 | 71,588 | 231,588 |
| 2035 | 170,000 | 65,188 | 235,188 |
| 2036 | 175,000 | 58,174 | 233,174 |
| 2037 | 185,000 | 50,956 | 235,956 |
| 2038 | 190,000 | 43,324 | 233,324 |
| 2039 | 195,000 | 35,488 | 230,488 |
| 2040 | 205,000 | 27,200 | 232,200 |
| 2041 | 215,000 | 18,486 | 233,486 |
| 2042 | 220,000 | 9,350 | 229,350 |
| TOTALS | <u>\$ 3,525,000</u> | <u>\$ 2,025,018</u> | <u>\$ 5,550,018</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2018

| Due During Fiscal Years Ending September 30 | Series 2017 | | |
|---|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2019 | \$ 40,000 | \$ 53,000 | \$ 93,000 |
| 2020 | 40,000 | 52,300 | 92,300 |
| 2021 | 40,000 | 51,500 | 91,500 |
| 2022 | 45,000 | 50,600 | 95,600 |
| 2023 | 45,000 | 49,475 | 94,475 |
| 2024 | 45,000 | 48,238 | 93,238 |
| 2025 | 50,000 | 46,888 | 96,888 |
| 2026 | 50,000 | 45,338 | 95,338 |
| 2027 | 55,000 | 43,788 | 98,788 |
| 2028 | 55,000 | 42,000 | 97,000 |
| 2029 | 60,000 | 40,144 | 100,144 |
| 2030 | 60,000 | 38,118 | 98,118 |
| 2031 | 60,000 | 36,018 | 96,018 |
| 2032 | 65,000 | 33,844 | 98,844 |
| 2033 | 65,000 | 31,406 | 96,406 |
| 2034 | 70,000 | 29,050 | 99,050 |
| 2035 | 75,000 | 26,512 | 101,512 |
| 2036 | 75,000 | 23,606 | 98,606 |
| 2037 | 80,000 | 20,700 | 100,700 |
| 2038 | 80,000 | 17,600 | 97,600 |
| 2039 | 85,000 | 14,400 | 99,400 |
| 2040 | 90,000 | 11,000 | 101,000 |
| 2041 | 90,000 | 7,400 | 97,400 |
| 2042 | 95,000 | 3,800 | 98,800 |
| | <u>\$ 1,515,000</u> | <u>\$ 816,725</u> | <u>\$ 2,331,725</u> |
| TOTALS | <u>\$ 1,515,000</u> | <u>\$ 816,725</u> | <u>\$ 2,331,725</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2018

| <u>Due During Fiscal Years Ending September 30</u> | <u>Annual Requirements for All Series</u> | | |
|--|---|-----------------------------------|--------------|
| | <u>Total Principal Due</u> | <u>Total Interest Due</u> | <u>Total</u> |
| 2019 | \$ 130,000 | \$ 186,788 | \$ 316,788 |
| 2020 | 135,000 | 183,388 | 318,388 |
| 2021 | 135,000 | 179,738 | 314,738 |
| 2022 | 145,000 | 175,988 | 320,988 |
| 2023 | 150,000 | 171,863 | 321,863 |
| 2024 | 155,000 | 167,476 | 322,476 |
| 2025 | 165,000 | 162,826 | 327,826 |
| 2026 | 170,000 | 157,682 | 327,682 |
| 2027 | 180,000 | 152,082 | 332,082 |
| 2028 | 185,000 | 145,918 | 330,918 |
| 2029 | 195,000 | 139,512 | 334,512 |
| 2030 | 200,000 | 132,592 | 332,592 |
| 2031 | 205,000 | 125,242 | 330,242 |
| 2032 | 215,000 | 117,632 | 332,632 |
| 2033 | 220,000 | 109,194 | 329,194 |
| 2034 | 230,000 | 100,638 | 330,638 |
| 2035 | 245,000 | 91,700 | 336,700 |
| 2036 | 250,000 | 81,780 | 331,780 |
| 2037 | 265,000 | 71,656 | 336,656 |
| 2038 | 270,000 | 60,924 | 330,924 |
| 2039 | 280,000 | 49,888 | 329,888 |
| 2040 | 295,000 | 38,200 | 333,200 |
| 2041 | 305,000 | 25,886 | 330,886 |
| 2042 | 315,000 | 13,150 | 328,150 |
| TOTALS | \$ 5,040,000 | \$ 2,841,743 | \$ 7,881,743 |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

| | <u>(1)</u> | <u>(2)</u> | <u>Totals</u> |
|---|---------------------------|---------------------------|---------------------|
| Bond Series: | 2016 | 2017 | |
| Interest Rate: | 3.00% to 4.25% | 1.75% to 4.00% | |
| Dates Interest Payable: | March 1/ September 1 | March 1/ September 1 | |
| Maturity Dates: | September 1, 2019/2042 | September 1, 2019/2042 | |
| Bonds Outstanding at Beginning of Current Year | \$ 3,525,000 | \$ | \$ 3,525,000 |
| Add Bonds Sold | | 1,560,000 | 1,560,000 |
| Less Retirements | _____ | (45,000) | (45,000) |
| Bonds Outstanding at End of Current Year | <u>\$ 3,525,000</u> | <u>\$ 1,515,000</u> | <u>\$ 5,040,000</u> |
| Current Year Interest Paid | <u>\$ 133,788</u> | <u>\$ 44,729</u> | <u>\$ 178,517</u> |

Bond Descriptions and Original Amount of Issue

(1) Sunfield Municipal Utility District No. 3 Unlimited Tax Road Bonds, Series 2016 (\$3,525,000)

(2) Sunfield Municipal Utility District No. 3 Unlimited Tax Road Bonds, Series 2017 (\$1,560,000)

Paying Agent/Registrar

(1) (2) Amegy Bank, a division of ZB, N. A., Houston, Texas

| <u>Bond Authority</u> | <u>Road Bonds</u> | <u>W,S,D Bonds</u> | <u>Parks & Rec. Bonds</u> |
|------------------------------|-------------------|--------------------|-------------------------------|
| Amount Authorized by Voters: | \$ 57,825,000 | \$ 63,550,000 | \$ 5,025,000 |
| Amount Issued: | 5,085,000 | 0 | 0 |
| Remaining to be Issued: | 52,740,000 | 63,550,000 | 5,025,000 |

Net Debt Service Fund deposits and investments balances as of September 30, 2018: \$292,409
Average annual debt service payment for remaining term of all debt: 328,406

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED SEPTEMBER 30

| | AMOUNT | | | | | PERCENT OF TOTAL REVENUES | | | | |
|---|------------------|------------------|------------------|-------------------|--------------------|---------------------------|---------------|---------------|-----------------|------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2018 | 2017 | 2016 | 2015 | 2014 |
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 121,861 | \$ 95,252 | \$ 15,853 | \$ 4,515 | \$ 823 | 42.9 % | 50.3 % | 33.1 % | 40.4 % | 95.0 % |
| Penalties and interest | 0 | 163 | 13 | | 43 | 0.0 | 0.1 | 0.0 | 0.0 | 5.0 |
| Tap connection and inspection fees | 108,450 | 75,600 | 26,100 | 4,050 | | 38.2 | 39.9 | 54.4 | 36.3 | 0.0 |
| Master District surplus billings | 52,854 | 18,090 | 5,976 | 2,599 | | 18.6 | 9.5 | 12.5 | 23.3 | 0.0 |
| Interest on deposits and investments | 965 | 425 | 21 | 1 | | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 |
| TOTAL REVENUES | 284,130 | 189,530 | 47,963 | 11,165 | 866 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| EXPENDITURES | | | | | | | | | | |
| Service operations: | | | | | | | | | | |
| Professional fees | 137,416 | 85,987 | 9,746 | 1,810 | | 48.3 | 45.3 | 20.3 | 16.2 | 0.0 |
| Contracted services | 33,130 | 27,260 | 8,304 | 7,545 | 4,728 | 11.7 | 14.4 | 17.3 | 67.6 | 546.0 |
| Utilities | 5,656 | 2,965 | 278 | 454 | | 2.0 | 1.6 | 0.6 | 4.1 | 0.0 |
| Administrative expenditures | 11,099 | 11,971 | 7,800 | 7,515 | 6,451 | 3.9 | 6.3 | 16.3 | 67.3 | 744.9 |
| TOTAL EXPENDITURES | 187,301 | 128,183 | 26,128 | 17,324 | 11,179 | 65.9 | 67.6 | 54.5 | 155.2 | 1290.9 |
| EXCESS REVENUES (EXPENDITURES) | \$ 96,829 | \$ 61,347 | \$ 21,835 | \$ (6,159) | \$ (10,313) | 34.1 % | 32.4 % | 45.5 % | (55.2) % | (1190. %) |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | N/A | N/A | N/A | N/A | N/A | | | | | |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | N/A | N/A | N/A | N/A | N/A | | | | | |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

| | <u>AMOUNT</u> | | <u>PERCENT OF TOTAL REVENUES</u> | |
|--|------------------|--------------------|----------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| REVENUES | | | | |
| Property taxes | \$ 224,032 | \$ 0 | 94.9 % | 0.0 % |
| Penalty and interest | 198 | 0 | 0.1 | 0.0 |
| Accrued interest on bonds received at date of sale | 5,218 | 5,203 | 2.2 | 21.7 |
| Interest on deposits and investments | <u>6,684</u> | <u>1,445</u> | <u>2.8</u> | <u>78.3</u> |
| TOTAL REVENUES | <u>236,132</u> | <u>6,648</u> | <u>100.0</u> | <u>100.0</u> |
| EXPENDITURES | | | | |
| Debt service: | | | | |
| Principal retirement | 45,000 | 0 | 19.1 | 0.0 |
| Interest and fees | <u>178,917</u> | <u>100,341</u> | <u>75.7</u> | <u>1509.3</u> |
| TOTAL EXPENDITURES | <u>223,917</u> | <u>100,341</u> | <u>94.8</u> | <u>1509.3</u> |
| EXCESS REVENUES (EXPENDITURES) | <u>\$ 12,215</u> | <u>\$ (93,693)</u> | <u>5.2 %</u> | <u>(1409.3 %)</u> |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2018

Complete District Mailing Address: Sunfield Municipal Utility District No. 3
 c/o Coats Rose, P.C.
 14755 Preston Road, Suite 600
 Dallas, Texas 77524

District Business Telephone No.: 972-788-1600

Submission date of the most recent District Registration Form: October 18, 2018

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

| <u>Name and Address</u> | <u>Term of Office (Elected/ Appointed)</u> | <u>Fees of Office Paid</u> | <u>Expense Reimb.</u> | <u>Title at Year End</u> |
|--|--|----------------------------|-----------------------|--------------------------|
| Kendall Bryant c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | Elected 5/07/16- 5/02/20 | \$ 750 | \$ 0 | President |
| Kari Edgar c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | Elected 5/05/18- 5/07/22 | 1,050 | 0 | Vice President |
| Bobby Perez c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | Elected 5/07/16- 5/02/20 | 450 | 0 | Secretary |
| Rick Boyd c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | Elected 5/07/16- 5/02/20 | 1,050 | 0 | Assistant Secretary |
| Julie Liddell c/o Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | Appointed 2/06/18- 5/07/22 | 300 | 0 | Assistant Secretary |

See accompanying independent auditor's report.

SUNFIELD MUNICIPAL UTILITY DISTRICT NO. 3BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2018CONSULTANTS

| <u>Name and Address</u> | <u>Date Hired</u> | <u>Fees and Expense Reimbursements</u> | <u>Title at Year End</u> |
|--|--------------------|--|----------------------------|
| Coats Rose, P.C. 14755 Preston Road, Suite 600 Dallas, Texas 77524 | 10/29/08 | \$ 25,736 50,702 Bonds | Attorney |
| Municipal Accounts & Consulting, L.P. 6500 River Place Blvd, Bldg 4, Suite150 Austin, Texas 78730 | 08/08 | 33,132 3,500 Bonds | Bookkeeper |
| Autumn Phillips 6500 River Place Blvd, Bldg 4, Suite150 Austin, Texas 78730 | 08/08 | 0 | Investment Officer |
| Murfee Engineering Company 1101 S. Capital of Texas Highway Building D, Suite 110 Austin, Texas 78746 | 11/01/05 | 107,819 | Engineer |
| Hays County Tax Assessor-Collector 102 LBJ Drive San Marcos, Texas 78666 | 08/08 | 33 | Tax Assessor-Collector |
| Travis County Tax Assessor-Collector 5501 Airport Blvd. Austin, Texas 78751 | 08/07 | 0 | Tax Assessor-Collector |
| Hays Central Appraisal District 21001 Interstate 35 Kyle, Texas 78640 | Legislative Action | 1,822 | Central Appraisal District |
| Travis Central Appraisal District 8314 Cross Park Drive Austin, Texas 78754 | Legislative Action | 0 | Central Appraisal District |
| R. W. Baird & Co. 700 Milam Street, Suite 1300 Houston, Texas 77002 | 2/05/15 | 35,163 Bonds | Financial Advisor |
| Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477 | 11/15/16 | 6,500 4,200 Bonds | Independent Auditor |

See accompanying independent auditor's report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



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