

OFFICIAL STATEMENT DATED OCTOBER 16, 2019

**Insured Rating (AGM): Moody's "A2" (Stable Outlook)
S&P "AA" (Stable Outlook)**

**Underlying Rating: Moody's Investors Service "A3"
See "MUNICIPAL BOND RATING" and "BOND INSURANCE" herein**

NEW ISSUE BOOK-ENTRY-ONLY

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$22,750,000

**SAN LEON MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Galveston County, Texas)
UNLIMITED TAX BONDS, SERIES 2019**

Dated: November 1, 2019

Due: September 1, as shown below

Interest on the herein described bonds (the "Bonds") will accrue from November 1, 2019 and is payable March 1, 2020 and each September 1 and March 1 (each an "Interest Payment Date"), thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar for the Bonds is ZB, National Association, dba Amegy Bank, Houston, Texas (the "Paying Agent"). The Bonds are obligations solely of the San Leon Municipal Utility District (the "District") and are not obligations of Texas City, Texas; Galveston County, Texas; the State of Texas; or any entity other than the District.

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.**



**MATURITIES
(Due September 1)**

CUSIP Prefix: 798465 (c)

\$11,410,000 SERIAL BONDS

| <u>Principal Amount</u> | <u>Interest Rate (a)</u> | <u>Due</u> | <u>Initial Reoffering Yield (b)</u> | <u>CUSIP Suffix</u> | <u>Principal Amount</u> | <u>Interest Rate (a)</u> | <u>Due</u> | <u>Initial Reoffering Yield (b)</u> | <u>CUSIP Suffix</u> |
|-------------------------|--------------------------|------------|-------------------------------------|---------------------|-------------------------|--------------------------|------------|-------------------------------------|---------------------|
| \$520,000 | 4.00 | 2020 | 1.27 | FR6 | \$555,000 | 2.125 | 2030* | 2.26 | GB0 |
| 355,000 | 4.00 | 2021 | 1.27 | FS4 | 580,000 | 2.250 | 2031* | 2.35 | GC8 |
| 375,000 | 3.00 | 2022 | 1.34 | FT2 | 610,000 | 2.250 | 2032* | 2.42 | GD6 |
| 395,000 | 3.00 | 2023 | 1.40 | FU9 | 640,000 | 2.375 | 2033* | 2.50 | GE4 |
| 415,000 | 3.00 | 2024 | 1.46 | FV7 | 670,000 | 2.500 | 2034* | 2.56 | GF1 |
| 435,000 | 3.00 | 2025 | 1.55 | FW5 | 705,000 | 2.500 | 2035* | 2.62 | GG9 |
| 455,000 | 3.00 | 2026 | 1.72 | FX3 | 740,000 | 2.625 | 2036* | 2.69 | GH7 |
| 480,000 | 3.00 | 2027* | 1.88 | FY1 | 780,000 | 2.625 | 2037* | 2.75 | GJ3 |
| 500,000 | 2.00 | 2028* | 2.09 | FZ8 | 815,000 | 2.625 | 2038* | 2.79 | GK0 |
| 525,000 | 2.00 | 2029* | 2.18 | GA2 | 860,000 | 2.750 | 2039* | 2.83 | GL8 |

\$11,340,000 TERM BONDS

| | | |
|-------------|---|-----------------|
| \$4,980,000 | Term Bonds, Due September 1, 2044* (b)(c), 3.000% Interest Rate, 3.014% Initial Yield (b) | CUSIP 798465GR5 |
| \$6,360,000 | Term Bonds, Due September 1, 2049* (b)(c), 3.000% Interest Rate, 3.045% Initial Yield (b) | CUSIP 798465GW4 |

- * Optional Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing September 1, 2027 through 2049, both inclusive, in whole or from time to time in part, on September 1, 2026, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2027 through September 1, 2049 may be subject to mandatory sinking fund redemption. See "THE BONDS - Redemption Provisions".
- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 98.187735% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 2.95413%.
 - (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from November 1, 2019 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.
 - (c) "CUSIP" is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. The CUSIP numbers listed on the front cover page are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds, and the District makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the services provided by CUSIP Global Services. The Initial Purchaser and the District are not responsible for the selection or correctness of the CUSIP numbers set forth herein.

The Bonds, when issued, will constitute valid and legally 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 against taxable property within the District (as defined in the Bond Order). See "THE BONDS - Source of Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this entire Official Statement prior to making an investment decision, including particularly the section titled "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Baker Williams Matthiesen LLP and Reid, Strickland & Gillette, LLP, Co-Bond Counsel (collectively, "Bond Counsel") and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, ("Special Tax Counsel"). In addition, certain legal matters will be passed upon for the District by Johnson Petrov LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on or about November 20, 2019, in Houston, Texas.

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

TABLE OF CONTENTS

| | | | |
|---|----|---|----|
| USE OF INFORMATION IN OFFICIAL STATEMENT..... | 3 | Wastewater System..... | 30 |
| SALE AND DISTRIBUTION OF THE BONDS..... | 3 | Drainage System..... | 31 |
| Award of the Bonds..... | 3 | 100-year Flood Plain..... | 31 |
| Prices and Marketability..... | 3 | Future Debt..... | 31 |
| Securities Laws..... | 4 | Water and Wastewater Operations..... | 32 |
| MUNICIPAL BOND RATINGS..... | 4 | Water and Wastewater Operating Statement..... | 33 |
| BOND INSURANCE..... | 4 | DEBT SERVICE REQUIREMENTS..... | 34 |
| OFFICIAL STATEMENT SUMMARY..... | 7 | FINANCIAL STATEMENT..... | 35 |
| THE DISTRICT..... | 7 | Assessed Value..... | 35 |
| THE BONDS..... | 8 | Unlimited Tax Bonds Authorized but Unissued..... | 35 |
| INVESTMENT CONSIDERATIONS..... | 9 | Outstanding Bonds..... | 35 |
| SELECTED FINANCIAL INFORMATION..... | 10 | Cash and Investment Balances..... | 36 |
| INTRODUCTION..... | 11 | Investment Authority and Investment Practice | |
| THE BONDS..... | 11 | of the District..... | 36 |
| General Description..... | 11 | Current Investments..... | 36 |
| Redemption Provisions..... | 11 | Estimated Overlapping Debt Statement..... | 37 |
| Termination of Book-Entry-Only System..... | 12 | Overlapping Taxes..... | 37 |
| Source of Payment..... | 13 | TAX DATA..... | 38 |
| Payment Record..... | 13 | Classification of Assessed Valuation..... | 38 |
| Funds..... | 13 | Tax Collections..... | 38 |
| Authority for Issuance..... | 14 | District Tax Rates..... | 38 |
| Registration and Transfer..... | 14 | Tax Rate Limitation..... | 38 |
| Replacement of Paying Agent..... | 15 | Maintenance Tax..... | 39 |
| Lost, Stolen or Destroyed Bonds..... | 15 | Top Taxpayers..... | 39 |
| Issuance of Additional Debt..... | 15 | Tax Adequacy for Debt Service..... | 39 |
| Remedies in Event of Default..... | 15 | TAXING PROCEDURES..... | 40 |
| Legal Investment and Eligibility to Secure | | Authority to Levy Taxes..... | 40 |
| Public Funds in Texas..... | 16 | Property Tax Code and County-Wide Appraisal District..... | 40 |
| Defeasance..... | 16 | Property Subject to Taxation by the District..... | 40 |
| Specific Tax Covenants..... | 17 | Valuation of Property for Taxation..... | 41 |
| Additional Covenants..... | 17 | District and Taxpayer Remedies..... | 42 |
| Amendment to the Bond Order..... | 17 | Levy and Collection of Taxes..... | 42 |
| Alteration of Boundaries..... | 17 | Rollback of Operation and Maintenance Tax Rate..... | 42 |
| Approval of Bonds..... | 17 | Districts' Rights in the Event of Tax Delinquencies..... | 43 |
| BOOK-ENTRY-ONLY SYSTEM..... | 18 | LEGAL MATTERS..... | 44 |
| ANNEXATION AND CONSOLIDATION..... | 20 | Legal Opinions..... | 44 |
| USE AND DISTRIBUTION OF BOND PROCEEDS..... | 21 | Legal Review..... | 44 |
| INVESTMENT CONSIDERATIONS..... | 22 | No Material Adverse Change..... | 45 |
| General..... | 22 | No-Litigation Certificate..... | 45 |
| Hurricanes and Subsidence..... | 22 | TAX MATTERS..... | 45 |
| Specific Flood Type Risks..... | 22 | CONTINUING DISCLOSURE OF INFORMATION..... | 46 |
| Hurricane Harvey..... | 23 | Annual Reports..... | 46 |
| Downturn in the Housing Market..... | 23 | Listed Event Notices..... | 47 |
| Impact on District Tax Rates..... | 23 | Availability of Information from MSRB..... | 48 |
| Tax Collections and Foreclosure Remedies..... | 23 | Compliance with Prior Undertakings..... | 48 |
| Registered Owners' Remedies..... | 24 | OTHER INFORMATION..... | 48 |
| Bankruptcy Limitation to Registered Owners' Rights..... | 24 | Registration and Qualification of Bonds for Sale..... | 48 |
| Marketability..... | 24 | Authenticity of Financial Information..... | 48 |
| Continuing Compliance with Certain Covenants..... | 25 | Forward Looking Statements..... | 48 |
| Future Debt..... | 25 | OFFICIAL STATEMENT..... | 49 |
| Approval of Bonds..... | 25 | Preparation..... | 49 |
| DISTRICT MAP..... | 26 | Financial Advisor..... | 49 |
| THE DISTRICT..... | 27 | Consultants..... | 49 |
| General..... | 27 | Underwriting Period..... | 49 |
| Location..... | 27 | Certification as to Official Statement..... | 50 |
| Management of the District..... | 27 | Official Statement "Deemed Final"..... | 50 |
| Development..... | 29 | PHOTOGRAPHS- | |
| Future Development..... | 29 | APPENDIX A - District - Audited Financial Statements | |
| Annexation of the District..... | 29 | APPENDIX B - Special Tax Counsel Opinion | |
| THE SYSTEM..... | 29 | APPENDIX C - Specimen Municipal Bond Insurance Policy | |
| General..... | 29 | | |
| Water System..... | 29 | | |

(this page intentionally left blank)

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 or the Initial Purchaser.

This Official Statement does not alone 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, contracts, records, 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 SAMCO Capital Markets, Inc. for further 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 as to the likelihood 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 the 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, other matters described in the "Official Statement" until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of BofA Securities Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 1 of this Official Statement at a price of 98.187735% of par plus accrued interest to date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

Prices and Marketability

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. Otherwise, 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 sole 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 offering 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.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price 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.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the 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 "jurisdiction". The District assumes no responsibility for registration of the Bonds under the securities laws of any other 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 shall 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 RATINGS

It is expected that Moody's Investors Service, Inc. ("Moody's") will assign a rating of "A2" (stable outlook) and S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign a rating of "AA" (stable outlook) with the understanding that upon the delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM"). Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A3" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization, and the District makes no representation as to the appropriateness of the rating. 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 such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. **See Appendix C – Specimen Municipal Bond Insurance Policy.**

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization, and the District makes no representation as to the appropriateness of the rating. 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 such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

BOND INSURANCE

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 an appendix 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 August 13, 2019, 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.

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.

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

Miscellaneous Matters

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

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT

The Issuer San Leon Municipal Utility District (the "District"), a political subdivision of the State of Texas, was created by an act of the 59th Legislature of the State of Texas on May 26, 1965, pursuant to House Bill 1082 Chapter 520 (Vernon's Texas Civil Statutes) and by Order of the Texas Water Rights Commission, now the Texas Commission on Environmental Quality ("TCEQ) as a conservation and reclamation district under the provisions of Section 59, Article XVI of the Constitution of the State of Texas. The District operates under the provisions of Chapters 49 and 51 of the Texas Water Code. The District lies within the extraterritorial jurisdiction of Texas City. The District has approximately 3,200 acres currently within the boundaries of the District. See "THE DISTRICT – General."

Location..... The District is located in Galveston County approximately two miles east of State Highway 146 on West Galveston Bay, north of Texas City and east of Bacliff. The District is bounded on the north and east by West Galveston Bay, on the west by Houston Lighting and Power Company's P.H. Robinson Power Plant inlet channels and on the south by Dickinson Bay. The District is also approximately 10 miles from the City of Dickinson. The District is on the east side of Interstate Highway 45 approximately 35 miles south of the central business district of the City of Houston and 15 miles north of the central business district of the City of Galveston. See "THE DISTRICT."

Development within
The District..... Development of the District began in the 1970s. As of June 30, 2019, there were 2,606 active single-family home connections in the District. In addition to the single-family connections, there are approximately 50 meters in use at mobile home and RV parks, 79 commercial meters and 36 multi-family meters. These meters represent approximately 558 Equivalent Single-Family connections.

The District has approximately six miles of property fronting Galveston Bay. Development along the Bay has been and currently is high-end, well-kept home sites many of which are weekend/vacation homes. The remainder of the District consists of smaller homes including various mobile home parks and permanent recreation vehicles. There is no zoning in the District, and therefore, there is no pattern to development of home sites in type, value or maintenance. Of the homes which currently have been designated as homesteads, the average market value as shown on the 2019 tax roll of the District prepared by the Galveston Central Appraisal District is approximately \$150,884.

Commercial development in the District includes fish and shrimp processing companies, oil production, neighborhood grocery stores, restaurants & bars, marinas, boat repair facilities RV Parks and various other retail and service establishments. See "TAX DATA – Top Taxpayers." Fire protection is provided by the San Leon Volunteer Fire Department, which also provided "Emergency Medical" and "First Responder" services for the San Leon community. A hospital is located in Texas City which is approximately ten minutes away. Schools for the District are provided by the Dickinson Independent School District. See "THE DISTRICT".

THE BONDS

| | |
|-------------------------------------|---|
| Description | The Bonds in the aggregate principal amount of \$22,750,000 mature annually in varying amounts on September 1 of each year from 2020 through 2049. Interest accrues from November 1, 2019 at the rates per annum set forth on the cover page hereof and is payable March 1, 2020 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS – General Description." |
| Redemption..... | Bonds maturing in the years 2027 through 2049, inclusive, are subject to optional redemption, in whole or from time to time in part, at the option of the District on September 1, 2026, and on any date thereafter at par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Redemption Provisions". |
| Source of Payment..... | Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. The Bonds are obligations solely of the San Leon Municipal Utility District and are not obligations of the State of Texas; Galveston County, Texas; Texas City, Texas or any other political subdivision or entity other than the District. See "THE BONDS - Source of Payment." |
| Payment Record..... | The District has never defaulted on the payment of any bond obligation. See "FINANCIAL STATEMENT – Outstanding Bonds". |
| Authority for Issuance | The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 51 of the Texas Water Code, as amended, an order of the Texas Commission on Environmental Quality ("TCEQ") approving the issuance of the Bonds, and pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - Authority for Issuance." |
| Use of Proceeds | The proceeds of the Bonds will be used for: (1) wastewater treatment plant expansion to 1.90 MGD; (2) 48" effluent outfall line; and (3) to finance certain engineering and legal costs. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS." |
| Bonds Authorized But Unissued | The Bonds are the first installment from the \$39,840,000 in bonds authorized at an election held within the District on May 4, 2019 for the purpose or purposes of construction and acquisition of water, sewer and drainage facilities and improvements. After the sale of the Bonds, \$17,090,00 in bonds will remain from the May 4, 2019 issuance and \$5,000,000 in bonds from the \$15,000,000 will remain authorized but unissued from the May 14, 2011 election. |

Municipal Bond Ratings

and Insurance It is expected that Moody’s Investors Service, Inc. (“Moody’s”) will assign a rating of “A2” (stable outlook) and S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), will assign a rating of “AA” (stable outlook) with the understanding that upon the delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM”). Moody’s Investors Service, Inc. (“Moody’s”) has assigned an underlying rating of “A3” to the Bonds. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization, and the District makes no representation as to the appropriateness of the rating. 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 such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. **See Appendix C – Specimen Municipal Bond Insurance Policy.**

Tax Exemption In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

General Counsel &
Co-Bond Counsel..... Reid, Strickland & Gillette, LLP, Baytown, Texas.

Co-Bond Counsel..... Baker Williams Matthiesen LLP, Houston Texas.

Special Tax Counsel Orrick, Herrington & Sutcliffe, LLP, Houston Texas.

Disclosure Counsel Johnson Petrov LLP, Houston, Texas.

Financial Advisor..... SAMCO Capital Markets, Inc., Austin, Texas.

District Engineer Costello Engineering & Surveying, Houston, Texas.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations, and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds and other factors described therein.

SELECTED FINANCIAL INFORMATION

(Unaudited as of September 1, 2019)

| | | |
|--|-------------------|-----|
| 2019 Assessed Valuation as of January 1, 2019 (100% of estimated market value) | \$386,342,885 | (a) |
| Gross Debt Outstanding (after issuance of the Bonds) | \$ 33,325,000 | (b) |
| Ratio of Gross Debt to 2019 Assessed Valuation as of January 1, 2019 | 8.63% | |
| 2019 Tax Rate | | |
| Debt Service | \$0.45 | |
| Maintenance & Operation..... | <u>\$0.18</u> | |
| Total | \$0.63 | |
| Debt Service Fund Balance..... | \$1,491,979 | (c) |
| Average percentage of current tax collections - Tax Years 2013/2018 | 93.49% | |
| Average percentage of total tax collections - Tax Years 2013/2018 | 97.93% | |
| *The District is on a June 30 fiscal year end. | | |
| Projected Average Annual Debt Service Requirement (2020/2033) of the Bonds and the Outstanding Bonds ("Projected Average Requirement")..... | \$1,944,190 | |
| Tax rate required to pay Projected Average Requirement based upon 2019 Assessed Valuation at 95% collections as of January 1, 2019..... | \$0.53/\$100 A.V. | |
| Projected Maximum Annual Debt Service Requirement (2033) of the Bonds and the Outstanding Bonds ("Projected Maximum Requirement")..... | \$2,114,106 | |
| Tax rate required to pay Projected Maximum Requirement based upon 2019 Assessed Valuation at 95% collections as of January 1, 2019..... | \$0.58/\$100 A.V. | |
| Status of water and sewer connections as of August 2019: | | |
| Single Family Connections | 2,606 | |
| Multi-Residential [<i>meters</i>] Connections | 36 | |
| Commercial Multi [<i>meters</i>] (Mobile Home & RV Parks)..... | 50 | |
| Commercial Connections..... | 79 | |
| Other (District, Irrigation) | 50 | |
| Estimated population | 10,329 | (d) |

- (a) Certified Taxable Assessed Value within the District on January 1, 2019 \$369,924,758 and \$19,315,444 Under Review, as provided by the Galveston Central Appraisal District ("GCAD"). In accordance with the Galveston County Tax Assessor Collector 85% of what is under review is added to the Certified Value and is used to set the District tax rate for fiscal year 2019/2020. That value is \$386,342,885. See "TAXING PROCEDURES."
- (b) Includes the Bonds. See "FINANCIAL STATEMENT – Outstanding Bonds."
- (c) After the sale of the bonds. Included in the sale of the Bonds is 12 months of capitalized interest in the amount of the \$672,065 and will be deposited to the Debt Service Fund upon closing. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (d) Based on 3.5 residents per completed single-family, multi-residential and commercial-multi (RV/Mobile Home) equivalent single-family connections (ESFCs). The 36 multi-residential connections equate to 48 ESFCs, the 50 commercial-multi equate to 297 ESFC's and the 2,606 single-family connections equate to 2,606 ESFCs.

OFFICIAL STATEMENT

relating to

\$22,750,000

SAN LEON MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Galveston County, Texas)
Unlimited Tax Bonds, Series 2019

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by San Leon Municipal Utility District (the “District”) of its \$22,750,000 Unlimited Tax Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 51 of the Texas Water Code, as amended, pursuant to an order (the “Bond Order”) adopted by the Board of Directors of the District on the date of the sale of the Bonds, and pursuant to an approving order of the Texas Commission on Environmental Quality (the “TCEQ”).

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the Bond Counsel, Baker Williams Matthiesen LLP, 5005 Woodway Dr., Suite 201, Houston, Texas 77056 or during the offering period from the District’s Financial Advisor, SAMCO Capital Markets, Inc., Attn: Christina M. Lane, 6805 Capital of Texas Highway, Suite 350, Austin, Texas 78731, upon payment of reasonable copying, mailing and handling charges.

THE BONDS

General Description

The Bonds will bear interest from November 1, 2019 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on March 1, 2020 and September 1 and March 1 (each an “Interest Payment Date”) thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in the denomination of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is ZB, National Association, dba Amegy Bank, Houston, Texas (“Paying Agent”).

Redemption Provisions

Optional Redemption...The Bonds maturing on and after September 1, 2027, 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, 2026, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption...In addition to being subject to optional redemption, as provided above, the Bonds maturing September 1, 2044 and September 1, 2049 are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

| <u>Bonds Maturing September 1, 2044</u> | | <u>Bonds Maturing September 1, 2049</u> | |
|--|-------------------------|--|-------------------------|
| <u>Mandatory</u> | <u>Principal</u> | <u>Mandatory</u> | <u>Principal</u> |
| <u>Redemption Date</u> | <u>Amount</u> | <u>Redemption Date</u> | <u>Amount</u> |
| 09/01/2040 | \$ 900,000 | 09/01/2045 | \$1,150,000 |
| 09/01/2041 | \$ 945,000 | 09/01/2046 | \$1,210,000 |
| 09/01/2042 | \$ 995,000 | 09/01/2047 | \$1,270,000 |
| 09/01/2043 | \$1,045,000 | 09/01/2048 | \$1,330,000 |
| 09/01/2044 | \$1,095,000 | 09/01/2049 | \$1,400,000 |

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Notice of Redemption...The Paying Agent/Registrar shall give written notice of redemption, by first class mail, overnight delivery, email, or other comparably secure means, not less than thirty (30) days prior to the redemption date, to each registered securities depository (and to each national information service that disseminates redemption notices) known to the Paying Agent/Registrar, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to the Registered Owner as hereinabove stated. The Paying Agent/Registrar may provide written notice of redemption to DTC by facsimile.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

Termination of Book-Entry-Only System

The Bonds are subject to the book-entry-only system administered by DTC. See “BOOK-ENTRY-ONLY SYSTEM.” In the event that the book-entry-only system is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

Payment ...Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Houston, Texas (the “Designated Payment/Transfer Office”). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by a registered owner at the risk and expense of such registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration... If the book-entry-only system is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may be, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange for Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent reasonably possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in the denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds...Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the 15th calendar day of the month preceding each Interest Payment Date (the "Record Date") and ending with the opening of business on the next following principal or Interest Payment Date, or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds...If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated Bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership, and (ii) the furnishing to the Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and cost of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest and principal of the Bonds. The Bonds are obligations of the District and are not the obligations of the State of Texas; Galveston County, Texas; or Texas City, Texas; or any other political subdivision or any entity other than the District.

Payment Record

This will be the first installment of bonds voted on May 4, 2019 from a total authorization of \$39,840,000. In addition, the District has remaining authorization of \$5,000,000 of bonds voted on in May 14, 2011. Also, in 2012 the District issued its \$3,054,999.50 Unlimited Tax Refunding Bonds.

Funds

In the Bond Order, the Debt Service Fund is created and established, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Upon the receipt by the District of the purchase price for the Bonds, the accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds, including interest earnings thereon, after payment of certain issuance costs shall be deposited into the Capital Projects Fund, to be used for the purposes described in the Bond Order. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a more complete description of the use of Bond proceeds and the projects related thereto.

Authority for Issuance

At a bond election held within the District on May 4, 2019, the voters of the District authorized the issuance of \$39,840,000 principal amount of unlimited tax bonds for the purpose or purposes of constructing or otherwise acquiring a waterworks system, sanitary sewer system, and drainage system for the District. There are also \$5,000,000 in authorization remaining from the District's May 14, 2011 election. See "Issuance of Additional Debt" below.

By adoption of an order dated September 17, 2019, the TCEQ authorized the District to sell the Bonds subject to certain restrictions, including restrictions on the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS".

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Order; Article XVI, Section 59 of the Constitution of the State of Texas, Chapters 49 and 51 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must initially 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.

Registration and Transfer

So long as the Bonds remain outstanding, the Paying Agent shall keep the register at its designated corporate trust office and, subject to such reasonable regulations as it may prescribe, the Paying Agent shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

Each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal corporate trust office of the Paying Agent, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered owner or his authorized representative in form satisfactory to the Paying Agent. To the extent possible and under reasonable circumstances, upon due presentation of any Bond in proper form for transfer, the Paying Agent has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the designated corporate trust office of the Paying Agent for a Bond of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent is authorized to authenticate and deliver exchange Bonds. Each exchange Bond delivered shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

Neither the District nor the Paying Agent shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond for a period of forty-five (45) days next preceding the selection of Bonds for redemption or to transfer or exchange any Bond called for redemption.

The District or the Paying Agent may require the registered owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connections with the transfer or exchange of such Bond(s). Any fee or charge of the Paying Agent for such transfer or exchange shall be paid by the District.

Replacement of Paying Agent

Provision is made in the Bond Order for replacement of the Paying Agent by the District. If the Paying Agent is replaced by the District the new Paying Agent shall act in the same capacity as the previous Paying Agent. Any Paying Agent 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.

Lost, Stolen or Destroyed Bonds

Upon presentation and surrender to the Paying Agent of a mutilated Bond, the Paying Agent shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the registered owner requested by the District or the Paying Agent and an indemnity bond, and such other security or indemnity as is satisfactory to the District and the Paying Agent to hold them harmless, and satisfaction by the registered owner of any other reasonable requirements of the District and the Paying Agent, execute and the Paying Agent shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's cost to replace such Bonds (including, but not limited to the fees and expenses of the Paying Agent). In addition, the District or the Paying Agent may require the registered owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT - General." The District's voters authorized at an election on May 4, 2019 the issuance of \$39,840,000 of unlimited tax bonds. The District also has \$5,000,000 in bonds from the \$15,000,000 authorized but unissued from the May 14, 2011 election. Any additional bonds sold would be on parity with or subordinate to the Bonds. Following the issuance of the Bonds, the District will have \$22,090,000 of unlimited tax bonds authorized but unissued.

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. See "INVESTMENT CONSIDERATIONS - Future Debt."

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of such bonds by the Attorney General of Texas. The District passed a fire protection plan with mandatory fees by vote of its citizens in 2012, but no additional bonding authority was included, and no bonds were issued. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Remedies in Event of Default

Other than a writ of mandamus and other relief authorized by law, the Bond Order does not expressly provide a specific remedy for a default. Although a registered owner could presumably obtain a judgment against the District for a default in the payment of principal or interest, such judgement could not be satisfied by execution against any property of the District. If the District defaults, a registered owner could petition for a writ of mandamus issued by a court of competent jurisdiction requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. There is no acceleration of maturity of the Bonds in the event of default and consequently the remedy of mandamus might need to be enforced on a periodic basis. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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. See “INVESTMENT CONSIDERATIONS - Registered Owners’ Remedies, and - Bankruptcy Limitation to Registered Owners’ Rights.”

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted 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.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

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 of payment (paying agent) of the Bonds or other obligations of the District payable from revenues, or from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, (b) non-callable 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) non-callable 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 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 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 as 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; however, 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.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

Specific Tax Covenants

In the Bond Order the District has covenanted with respect to among other matters, the use of the proceeds of the Bonds and the use of facilities financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exclusion from gross income of interest on the Bonds under Section 103 of the Code.

Additional Covenants

The District has additionally covenanted in the Bond Order that, to the extent it has the authority to do so, it will (i) maintain the System in good condition and working order, ordinary wear and tear and obsolescence excepted, and operate the System in an efficient manner and at a reasonable cost, (ii) maintain insurance on the System of a kind and in an amount which usually would be carried by municipal corporations and political subdivisions in Texas engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled, and (iii) keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

Amendment to Bond Order

The Bond Order contains provisions to the effect that the District may, without the consent of or notice to any registered owners of the Bonds, amend, change or modify the Bond Order as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change that does not in any respect materially and adversely affect the interest of the registered owners of the Bonds. Except for such amendments, changes or modifications, the District shall not amend, change or modify the Bond Order in any manner without the consent of 51% the registered owners in aggregate principal amount of the outstanding Bonds.

Alteration of Boundaries

In certain circumstances under Texas law, the District may alter its boundaries to: (1) upon satisfying certain conditions, annex additional territory; and (2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect any additional changes in its boundaries.

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 does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

BOOK-ENTRY-ONLY SYSTEM

The Bonds will be available only in book-entry form. Consequently, purchasers of ownership interests in the Bonds will not receive certificates representing their respective interests in the Bonds. This section describes how ownership of the Bonds is to be transferred and how the payments of principal of and interest on the Bonds are to be paid to and accredited by Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Underwriters and the District believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each issue 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 purchaser of each Security (“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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited,

which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest payments, premium, if any, and redemption proceeds 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 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, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased, through its Participant, to the Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent/Registrar's DTC account.

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 as set forth in the Order. 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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

ANNEXATION AND CONSOLIDATION

Annexation

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city comprises that city's extraterritorial jurisdiction. The size of extraterritorial jurisdiction depends in part on the city's population. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. When a city annexes additional territory, the city's extraterritorial jurisdiction expands in conformity with such annexation. Texas law has changed as of September 1, 2019, and the City of Texas City can no longer annex any part of the San Leon Municipal Utility District without a positive vote of the District's residents. No such vote is anticipated.

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, wastewater, and drainage systems of the district(s) with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

[The rest of this page intentionally left blank.]

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used for (i) wastewater treatment plant expansion to 1.90 MGD; and (ii) certain engineering and technical fees. In addition, proceeds of the Bonds will be used to pay certain costs associated with the issuance of the Bonds.

The presently estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$19,736,500 is estimated to be required for construction costs, and \$13,013,500 is estimated to be required for non-construction costs.

| <u>Construction Costs:</u> | <u>Amount</u> |
|--|----------------------|
| 1. Wastewater Treatment Plant Expansion 1.90 MGD | \$16,625,000 |
| 2. 48" Effluent Outfall Line | 462,500 |
| 3. Contingencies (10%) | 1,709,000 |
| 4. Engineering/Technical Services | <u>940,000</u> |
| TOTAL CONSTRUCTION COSTS | \$19,736,500 |

| <u>Non-Construction Costs:</u> | <u>Amount</u> |
|---|----------------------------|
| A. Legal Fees (2.50%) | 568,750 |
| B. Fiscal Advisor Fees (2%) | 455,000 |
| C. Capitalized Interest (12 months @ 2.95413%) | 672,065 |
| D. Bond Discount (1.812265%) | 412,290 |
| E. Bond Issuance Expense | 53,375 |
| F. Bond Application Cost | 50,000 |
| G. Attorney General Fee (0.10% or \$9,500 max.) | 9,500 |
| E. TCEQ Bond Issuance Fee (0.25%) | 56,875 |
| F. Contingency (a) | <u>735,645</u> |
| TOTAL NON-CONSTRUCTION COSTS | \$3,013,500 |
| TOTAL BOND ISSUE REQUIREMENT | <u>\$22,750,000</u> |

- (a) In its approval of the issuance of the Bonds, the TCEQ directed any surplus bond proceeds resulting from the sale of the Bonds at a lower interest rate (than anticipated in the Bond Application Report) to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus bond funds

[The rest of this page intentionally left blank.]

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Galveston County, Texas; Texas City; or any other political subdivision, will be 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 principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by the registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

Hurricanes and Subsidence

Hurricanes can cause increased flooding, particularly in coastal areas such as the area where the District is located. Hurricanes can also cause windstorm and other damage, including erosion of property fronting on Galveston Bay, and hurricane induced flooding can submerge roadways connecting coastal areas such as the District with inland areas, thus preventing evacuations of persons or property. If a hurricane (or any other natural disaster) destroyed all or part of the improvements with the District within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or increase in the tax rate. Further, there can be no assurance that a casualty loss will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected. The Gulf Coast region in which the District is located is subject to occasional destructive weather. There can be no assurance the District will not endure damage from future meteorological events.

Land subsidence (a sinking of the surface of the land relative to sea level) has occurred in many areas in the Houston-Galveston area, including the District, and any future subsidence could increase flooding risks. These factors could cause property values in the District to fall and could adversely affect the District's ability to collect taxes to pay interest and principal on the Bonds.

Specific Flood Type Risks

The District is subject to a variety of flood risks:

Ponding (or Pluvial) Flood: Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream of or behind a dam, levee or reservoir.

Riverine (or Fluvial) Flood: Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Coastal (or Storm Surge) Flood: Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide. The District cannot predict the likelihood of any of the types of floods described above occurring, or the impact on assessed values should such flooding occur.

Hurricane Harvey

Hurricane Harvey struck the Houston area on August 26, 2017, resulting in historic levels of rainfall. However, according to the District's operator, the District's System did not sustain any material damage and there was no interruption of water and sewer service. Further, according to the District's Operator and Engineer, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes or commercial improvements within the District. Hurricane Harvey could have a material impact on the Houston region's economy. The District cannot predict what impact, if any, Hurricane Harvey will have on the assessed value of homes and commercial improvements within the District.

Downturn in the Housing Market

Nationally, there has been a significant downturn in new housing construction, resulting in a decline in housing market values. The Houston area, which includes Galveston County, has experienced reduced levels of home construction. The District cannot predict what impact, if any, a continued downturn in the local and national housing and financial markets may have on the Houston area market and specifically, the District

Impact on District Tax Rates

Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2019 assessed valuation of the District is \$386,342,885 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement is estimated to be \$2,114,106 (2033) and the Projected Average Annual Debt Service Requirement is estimated to be \$1,944,190 (2020 through 2033, inclusive). Based on the 2019 assessed valuation and no use of funds on hand, a tax rate of \$0.58 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Projected Maximum Annual Debt Service Requirement of \$2,114,106 and a tax rate of \$0.53 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of \$1,944,190. See "PROJECTED DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Registered owners of the Bonds are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, registered owners to enforce such remedies. The rights and remedies of the registered owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS."

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds 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 discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, 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 negotiations are impracticable. Under Texas law, a water control and improvement district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in determining the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the registered owners could potentially and adversely impair the value of the registered owner's claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. 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 the registered owner's claim against a district.

Marketability

The District has no understanding with 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 for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

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 "CONTINUING DISCLOSURE OF INFORMATION".

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$22,090,000 authorized but unissued bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, inferior lien bonds, and other obligations described in the Bond Order. All the remaining \$22,090,000 bonds, which have heretofore been authorized by the voters of the District, may be issued by the District, with the approval of the TCEQ, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "THE BONDS – Issuance of Additional Debt."

The District contains 3,200 acres total. Approximately 60% of the District acreage is composed of large acreage Farm Home Tracts, of which the majority of the Tracts are not fully developed. The District currently has approximately 2,821 connections. The connections are estimated to increase to 4,000 by the year 2030 based on historical population growth and available undeveloped lands within the District. The District has previously constructed utilities provide service to all of the farm home tracts; however, much of the area is developed to its full capacity and utilities may need to be rehabilitated and additional plant capacity may be needed for full development.

Approval of the Bonds

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS". In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

DISTRICT MAP



Costello
2107 CityWest Blvd
3rd Floor
Houston, Texas 77042

SAN LEON M.U.D.

DISTRICT AERIAL MAP

September 2019

2018145-204-DS

THE DISTRICT

General

San Leon Municipal Utility District (the "District"), is a political subdivision of the State of Texas, created by an act of the 59th Legislature of the State of Texas on May 26, 1965, pursuant to House Bill 1082 Chapter 520 (Vernon's Texas Civil Statutes) and by Order of the Texas Water Rights Commission, now the Texas Commission on Environmental Quality ("TCEQ) as a conservation and reclamation district under the provisions of Section 59, Article XVI of the Constitution of the State of Texas. The District operates under the provisions of Chapters 49 and 51 of the Texas Water Code. The District operates as a water control and improvement district pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, as amended, and other general statutes of the State of Texas applicable to water control and improvement districts. The District is subject to the continuing supervision of the TCEQ and is located within the extraterritorial jurisdiction of the City of Texas City, Texas and within the boundaries of Dickinson Independent School District.

At the time of creation, the District contained 5,050 acres of land within its boundaries. Subsequently, on November 19, 1973, the District excluded 1,850 acres of land from its boundaries to Houston Lighting. The current acreage in the District is 3,200.

The District has the statutory authority, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; and the collection, transportation, and treatment of wastewater. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District contracts for waste collection and disposal services. Fire protection and emergency services are provided to the District by the San Leon Volunteer Fire Department. The District is also empowered to operate and maintain certain recreational facilities within the District, but to date has not done so.

Location

The District is located in Galveston County approximately two miles east of State Highway 146 on West Galveston Bay, north of Texas City and east of Bacliff. The District is bounded on the north and east by West Galveston Bay, on the west by the former Houston Lighting and Power Company inlet channels and on the south by Dickinson Bay. The District is also approximately 10 miles from the City of Dickinson. The District is on the east side of Interstate Highway 45 approximately 35 miles south of the central business district of the City of Houston and 15 miles north of the central business district of the City of Galveston. The District lies entirely within Galveston County.

Management of the District

Board of Directors

The District is governed by a board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' are elected to staggered four-year terms with elections held in May in each even numbered year. All of the directors own property in the District.

| <u>Name</u> | <u>Position</u> | <u>Length of Service</u> | <u>Term Expires May</u> |
|----------------|---------------------------|--------------------------|-------------------------|
| Joe Manchaca | President | 13 years | 2022 |
| Tyson Kennedy | Vice President | 13 years | 2022 |
| Keith Gossett | Secretary | 1 year | 2020 |
| Kenneth Bishop | Treasurer/Invest. Officer | 11 years | 2020 |
| Kelly Neason | Asst. Secretary | 3 years | 2022 |

District Management

The District provides its own utility system management, operating and bookkeeping services. The District employs the following individuals in the following capacities.

| | |
|-------------------|----------------|
| District Manager: | Andrew Miller |
| Office Manager: | Janice Hoffman |
| Field Supervisor: | Ken Keller |

In addition, the District employs six licensed operators and two in training, as well as, two other personnel.

The District does provide a Pension Plan for its employees. Please see Note 10 in the District's June 30, 2019 Audit attached included in this document.

Consultants

Tax Assessor/Collector

Land and improvements in the District are being appraised by the Galveston County Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Galveston County Tax Assessor/Collector, Ms. Cheryl E. Johnson, currently serves the District in this capacity under contract.

Engineer

The District's consulting engineer is Costello Engineering & Surveying (the "Engineer").

Auditor

The District's audited financial statements for the year ended June 30, 2016 were prepared by McCall Gibson Swedlund Barfoot PLLC. See APPENDIX A for a copy of the District's year end June 30, 2016 audited financial statements.

Financial Advisor

SAMCO Capital Markets, Inc. serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

General Counsel & Co-Bond Counsel

The District has engaged Reid, Strickland & Gillette, LLP, Baytown, Texas, as General Counsel & Co-Bond Counsel in connection with the issuance of the District's Bonds. The fees of Co-Bond Counsel are contingent upon the sale of and delivery of the Bonds.

Co-Bond Counsel

The District has engaged Baker Williams Matthiesen LLP, Houston, Texas, as Co-Bond Counsel in connection with the issuance of the District's Bonds. The fees of Co-Bond Counsel are contingent upon the sale of and delivery of the Bonds.

Special Tax Counsel

The District has engaged Orrick, Herrington & Sutcliffe, LLP, Houston, Texas, as Special Tax Counsel to the District. The fees paid to Special Tax Counsel are contingent upon the sale of and delivery of the Bonds.

Disclosure Counsel

The District has employed Johnson Petrov LLP, Houston, Texas, as disclosure counsel.

Development

Development of the District began in the 1970s. Water, sewer and drainage facilities are available to serve all the land in the District of land in the District. As of June 30, 2019, there were 2,606 active single-family home connections in the District. In addition to the single-family connections, there are approximately 50 meters in use at mobile home and RV parks, 79 commercial meters and 36 multi-residential meters. These meters serve approximately 558 Equivalent Single-Family connections.

The District has approximately six miles of property fronting Galveston Bay. Development along the Bay has been and currently is high-end, well-kept home sites many of which are weekend/vacation homes. The remainder of the District consists of smaller homes including various mobile home parks and permanent recreation vehicles. There is no zoning in the District, and therefore, there is no pattern to development of home sites in type, value or maintenance. Of the homes which currently have been designated as homesteads, the average market value as shown on the 2019 tax roll of the District prepared by the Galveston Central Appraisal District is approximately \$150,884.

Commercial development in the District includes fish and shrimp processing companies, oil production, neighborhood grocery stores, restaurants, marinas, boat repair facilities RV Parks and various other retail and service establishments. See "TAX DATA – Principal Taxpayers." Fire protection is provided by the San Leon Volunteer Fire Department, which also provided "Emergency Medical" and "First Responder" services for the San Leon community. A hospital is located in Texas City which is approximately ten minutes away. Schools for the District are provided by the Dickinson Independent School District.

Future Development

The District contains 3,200 acres total. Approximately 60% of the District acreage is composed of large acreage farm home tracts, of which the majority of the tracts are not fully developed. The District currently has approximately 2,800 connections. The connections are estimated to increase to 4,000 by the year 2030 based on historical population growth and available undeveloped lands within the District. The District has previously constructed utilities to serve all of the farm home tracts; however, much of the area is not developed to its full capacity and utilities may need to be rehabilitated and plant capacity may need to be added for full development.

Annexation of the District

The District lies within the extraterritorial jurisdiction of the City of Texas City. The District has approximately 3,200 acres currently within the boundaries of the District. See "EXTRATERRITORIAL JURISDICTION AND ANNEXATION" for a discussion of the ability of the City of Texas City to annex the District.

THE SYSTEM

General

The water and wastewater facilities, the purchase, acquisition and construction of which have been financed by the District with the proceeds of previous bonds issuances, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ. According to the Engineer, the design of all such facilities has been approved by all governmental agencies, which have jurisdiction over the District.

Operation of the District's waterworks and wastewater 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 revision.

Water System

The District's primary water supply is surface water provided by the Gulf Coast Water Authority (the "Authority") with groundwater as a backup. Groundwater is obtained from one water well located within the District to supplement the supply from the Gulf Coast Water Authority during times of emergency. The District is within the jurisdictional boundaries of the Gulf Coast Water Authority. The Authority combined all of the wells within its boundaries in an aggregated permit. The District is authorized to withdraw 2.1 million gallons for the calendar year 10/1/2018 to

9/30/2019, as part of the combined total aggregated permit. This permit for the water well is renewed on an annual basis and is maintained by the District.

The District currently owns and operates one water supply plant, Water Plant No. 1. The water supply plant currently serves the District up to 1.5 million gallons per day of surface water from the Authority and one well for back up. The District's existing water supply plant has capacity to serve approximately 3,392 ESFCs and is capable of serving the existing development of 3,274 ESFC connections within the District. No funds from this bond sale will be used to construct any development or facility expansion. The District is projected to have 4,000 connections (4,609 ESFC) by 2030.

Surface Water Supply Contract: On May 13, 1985, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement was amended on June 1, 1998. The Authority represents that a supply of surface water is available to the District through the Mainland System. The District acknowledged that because the water to be supplied under the terms of this Agreement will be supplied by means of the Authority's Industrial Division to the Mainland System, the Authority must comply with certain provisions of the Industrial Division Customer Contracts and certain Water Supply Contracts.

With the 1998 contract amendment and upon the occurrence of the commencement date, participants in the "South Project" became participants in the facilities. The South Project added approximately 25 Million Gallons Per Day (MGD) capacity in the water plant, the South Line, the Galveston Line, the Highway 6 Line, the Alta Loma Pump Station, the 39-Inch Line and the Alta Loma Wells. The actual commencement date was June 1, 2001.

The District's current reserved capacity is 1,785,000 gallons per day of the total capacity in the Mainland Project. The District's "take or pay" quantity is 546,000 gallons per day. On March 1, 2005, the District executed a Mainland Project 2011 Expansion Feasibility Study Financing Agreement with the Authority. The District has expressed an interest in acquiring 694 gallons per minute additional capacity in the expansion of the plant.

The Authority agreed to furnish, install, operate and maintain at or near the point of delivery the necessary equipment and devices of a standard type for measuring the quantity of water delivered to the District. The Authority has the responsibility for reading the measurement devices and maintaining a journal or record book of such readings and the District has access to such journals. The District has the right to request calibration of the meter no more than once every 180 days.

Charges to the District include its share of the Mainland System Raw Charges, Operation Charges, Capital Charges and at times water charges. On September 26, 2006, the contract was ratified for the acceptance of surplus water at a lower rate. During the fiscal year (2017), the District recorded \$471,251 in water costs attributable to the contract. The term of this agreement extends through December 31, 2022. The District intends to extend the contract under the terms of renewal. The Authority is the supplier of water in the entire area.

Wastewater System

The existing Wastewater Treatment Plant (WWTP) has a capacity of 950,000 gallons per day (gpd) and is sufficient to handle 3,393 connections or 3773 ESFCs, based on 280 gpd per connection. The District has a significantly lower usage of approximately 210 gpd/connection and even lower during dry weather periods. While the District has averaged approximately 80% of the WWTP's capacity for the past 24 months, approximately 25% of the capacity used is due to Inflow and Infiltration (I&I). The current permit expires May 13, 2024. While this capacity is adequate to serve the existing District development, the results of the combined growth and I&I issues has made it necessary to expand the facilities to provide proper treatment and management of sanitary flows. The funds from this bond sale will be used to expand the treatment facilities to twice its current capacity to 1,950,000 gpd and includes a new 48-inch treated effluent pipe to convey flow to the outfall point in Salt Bayou. The line is oversized to accommodate for storm surges (higher water surface elevations over land due to hurricanes) that would impede normal discharge flow.

The District has an extensive sanitary sewer collection system that provides service to all property within the District boundaries. As the development within the District continues, rehabilitation of the sanitary collection system will proceed once the treatment plant is complete, as appropriate funding has been authorized by the residents of San Leon.

Drainage System

The drainage of the entire District is distributed through various manmade ditches, underground lines and drainage channels that flow to Dickinson Bay and Galveston Bay and are maintained by Galveston County. When a rainfall event occurs, the rain flows overland to the ditches. From the western edge of the District boundary, the area drains south and east toward Dickinson Bay. The northern side of the District drains north toward Galveston Bay. And the far eastern portion of the District continues to drain eastward to Galveston Bay.

100-year Flood Plain

According to Federal Emergency Management Agency Flood Insurance Rate Maps (Panel No. 485470 0035C, Panel No. 485470 0099C, Panel No. 485470 0100 and Panel No. 485470 0105C, all dated May 2, 1983), approximately 2,100 acres of the District's 3,200 acres, most of which are adjacent to Galveston Bay and Dickinson Bay, are located within the 100 year flood plain. Galveston County Flood Plain Management requires all new construction or substantial improvements of non-residential and residential structures within its unincorporated areas to have the lowest floor to be elevated to or above the level of the 100-year flood elevation or 18 inches above natural ground, whichever is higher. The District has not verified that the homes and improvements on any property have been constructed at or above the minimum slab and elevation requirements. The construction of houses and other improvements at or above the minimum slab and elevation requirements does not assure that such structures will not flood under catastrophic events such as major hurricanes. See "INVESTMENT CONSIDERATIONS – Hurricanes and Subsidence."

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$22,090,000 authorized but unissued bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, inferior lien bonds, and other obligations described in the Bond Order. All the remaining \$22,090,000 bonds, which have heretofore been authorized by the voters of the District, may be issued by the District, with the approval of the TCEQ, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "THE BONDS – Issuance of Additional Debt."

Approximately 60% of the District acreage is composed of large acreage Farm Home Tracts, of which the majority of the Tracts are not fully developed. The District currently has approximately 2,800 connections. The connections are estimated to increase to 4,000 by the year 2045 based on historical population growth and available undeveloped lands within the District. The District has previously constructed utilities to serve all of the Farm Home Tracts; however, much of the areas are not developed to their full capacity and utilities may need to be rehabilitated, and additional plant capacity added, once full development is achieved which may require the issuance of additional bonds.

[The rest of this page intentionally left blank.]

Water and Wastewater Operations
Rate and Fee Schedule

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District’s water and sewer service, which have been in effect since September 2018.

Water (Monthly Billing)

Single-Family & Multi-Residential:

| | |
|--|--------------------------|
| Base Rate 5/8” Meter (includes 2,000 gallons)..... | \$20.00 |
| 3,000 to 4,999 | \$5.50 per 1,000 gallons |
| 5,000 to 7,999 | \$5.75 per 1,000 gallons |
| 8,000 to 10,999 | \$6.00 per 1,000 gallons |
| 11,000 to 24,999 | \$6.25 per 1,000 gallons |
| 25,000 to 44,999 | \$6.50 per 1,000 gallons |
| 45,000 to 75,999 | \$6.75 per 1,000 gallons |
| Over 75,000 | \$7.00 per 1,000 gallons |

Commercial and/or Commercial Multi:

| | |
|--|--------------------------|
| Base Rate (includes 2,000 gallons) | \$25.00 |
| 3,000 to 4,999 | \$6.75 per 1,000 gallons |
| 5,000 to 7,999 | \$7.00 per 1,000 gallons |
| 8,000 to 10,999 | \$7.25 per 1,000 gallons |
| 11,000 to 24,999 | \$7.50 per 1,000 gallons |
| 25,000 to 44,999 | \$7.75 per 1,000 gallons |
| 45,000 to 75,999 | \$8.00 per 1,000 gallons |
| Over 75,000 | \$8.25 per 1,000 gallons |

Wastewater (Monthly Billing)

Single-Family & Multi-Residential:

| | |
|--|--------------------------|
| Base Rate (includes 2,000 gallons) | \$20.00 |
| 3,000 to 4,999 | \$4.50 per 1,000 gallons |
| 5,000 to 7,999 | \$4.75 per 1,000 gallons |
| 8,000 to 10,999 | \$5.00 per 1,000 gallons |
| Over 11,000 | \$5.25 per 1,000 gallons |

Commercial and/or Commercial Multi:

| | |
|--|--------------------------|
| Base Rate (includes 2,000 gallons) | \$20.00 |
| 3,000 to 4,999 | \$4.50 per 1,000 gallons |
| 5,000 to 7,000 | \$5.00 per 1,000 gallons |
| 8,000 to 10,999 | \$5.50 per 1,000 gallons |
| Over 11,000 | \$6.00 per 1,000 gallons |

Water and Wastewater Operating Statement

The following statement sets forth in condensed form the historical operations of the District's water and sewer system. Such summary has been prepared upon information obtained from the District's audited financial statements and records. Reference is made to such statements for further and more complete information. See "APPENDIX A – Audited Financial Statement.

| | Fiscal Year End | | | | |
|--|--------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|
| | 08/31/19 (b) | 06/30/19 (a) | 06/30/18(a) | 06/30/17(a) | 06/30/16(a) |
| REVENUE | | | | | |
| Property Taxes | \$40,394 | \$936,834 | \$628,487 | \$550,579 | \$375,324 |
| Water Service | 224,838 | 1,352,900 | 1,173,498 | 1,115,885 | 1,061,850 |
| Wastewater Service | 174,847 | 1,029,799 | 920,195 | 895,413 | 909,500 |
| Street Lighting | 21,220 | 124,587 | 127,059 | 126,999 | 122,871 |
| Fire Fighting | 44,664 | 264,318 | 273,152 | 273,616 | 264,013 |
| Solid Waste Service | 95,518 | 561,140 | 572,346 | 284,769 | 0 |
| Penalty and Interest | 5,669 | 34,444 | 33,242 | 35,419 | 33,124 |
| Tap Connection & Inspection Fees | 39,500 | 268,685 | 141,295 | 242,080 | 131,095 |
| Miscellaneous Revenues & FEMA Reimbursements | <u>7,668</u> | <u>127,887</u> | <u>149,406</u> | <u>164,026</u> | <u>53,778</u> |
| TOTAL REVENUES | <u>\$ 654,318</u> | <u>\$4,700,594</u> | <u>\$4,018,680</u> | <u>\$3,688,786</u> | <u>\$2,951,555</u> |
| EXPENDITURES | | | | | |
| Service Operations: | | | | | |
| Personnel | \$ 144,538 | \$929,969 | \$875,399 | \$910,236 | \$821,010 |
| Professional Fees | 76,355 | 142,376 | 151,469 | 317,231 | 93,142 |
| Contracted Services | 1,723 | 881,267 | 875,615 | 595,865 | 277,780 |
| Purchased Water | 87,148 | 514,338 | 466,145 | 436,831 | 401,450 |
| Utilities | 20,739 | 116,562 | 126,693 | 121,567 | 149,341 |
| Repairs & Maintenance | 52,505 | 1,253,521 | 326,418 | 236,383 | 350,445 |
| Street Lighting | 11,607 | 73,272 | 73,743 | 71,871 | 98,442 |
| Other | 55,679 | 668,056 | 1,080,906 | 758,297 | 539,028 |
| Capital Outlay (d) | 0 | | 787,160 | 301,782 | 454,017 |
| Note Principal Paid in Full | 0 | 29,478 | 38,388 | 38,100 | 15,934 |
| Note Interest Paid in Full | | 553 | 1,978 | 3,401 | 1,348 |
| TOTAL EXPENDITURES | <u>\$450,294</u> | <u>\$4,609,492</u> | <u>\$4,803,914</u> | <u>\$3,791,564</u> | <u>\$3,201,937</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | |
| | <u>\$ 204,024</u> | <u>\$91,102</u> | <u>(\$785,234)</u> | <u>(\$102,778)</u> | <u>(\$250,382)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Note Proceeds | | | | \$ 33,913 | \$ 57,008 |
| Transfers In (Out) | <u>\$ 0</u> | <u>\$731,483 (d)</u> | <u>\$ 266,123</u> | <u>\$ 233,139</u> | <u> </u> |
| NET CHANGE IN FUND BAL. | | \$822,585 | (\$519,111) | \$164,274 | (\$193,374) |
| FUND BALANCE: | | | | | |
| Beginning of Year | <u>\$1,951,493</u> | <u>\$1,128,908</u> | <u>\$1,648,019</u> | <u>\$1,483,745</u> | <u>\$1,677,119</u> |
| End of Year | | <u>\$1,951,493</u> | <u>\$1,128,908</u> | <u>\$1,648,019</u> | <u>\$1,483,745</u> |

(a) Audited.

(b) Unaudited for fiscal year 2020 beginning July 1 (two months of operations).

(c) As of August 31, 2019, approximately \$60,000 was expended from the general fund and was reimbursed from the existing from bond proceeds.

(d) The income statement for July 31, 2019 includes approximately \$731,483 in expenses which were reimbursed from the existing Capital Projects Fund.

DEBT SERVICE REQUIREMENTS

SAN LEON MUNICIPAL UTILITY DISTRICT

\$22,750,000

Unlimited Tax Bonds, Series 2019

Issue Dated: November 1, 2019

First Interest Payment Due: March 1, 2020

| Ending 31-Dec | Outstanding Bonds | Series 2019 | | | | Principal & Interest | Projected Total Debt Service Requirement |
|------------------|----------------------|--------------------------|--------------------|--------------------|---------------------|-------------------------|---|
| | Total | Principal (Due 09/01) | Interest (a) | | Total | | |
| | | | (Due 03/01) | (Due 9/01) | | | |
| 2019 | 847,625 | - | - | - | - | - | 847,625 |
| 2020 | 849,900 | 520,000 | 215,146 | 322,719 | 537,865 | 1,057,865 | 1,907,765 |
| 2021 | 851,515 | 355,000 | 312,319 | 312,319 | 624,638 | 979,638 | 1,831,153 |
| 2022 | 859,635 | 375,000 | 305,219 | 305,219 | 610,438 | 985,438 | 1,845,073 |
| 2023 | 861,965 | 395,000 | 299,594 | 299,594 | 599,188 | 994,188 | 1,856,153 |
| 2024 | 868,655 | 415,000 | 293,669 | 293,669 | 587,338 | 1,002,338 | 1,870,993 |
| 2025 | 874,555 | 435,000 | 287,444 | 287,444 | 574,888 | 1,009,888 | 1,884,443 |
| 2026 | 890,663 | 455,000 | 280,919 | 280,919 | 561,838 | 1,016,838 | 1,907,500 |
| 2027 | 901,706 | 480,000 | 274,094 | 274,094 | 548,188 | 1,028,188 | 1,929,894 |
| 2028 | 916,019 | 500,000 | 266,894 | 266,894 | 533,788 | 1,033,788 | 1,949,806 |
| 2029 | 933,544 | 525,000 | 261,894 | 261,894 | 523,788 | 1,048,788 | 1,982,331 |
| 2030 | 949,069 | 555,000 | 256,644 | 256,644 | 513,288 | 1,068,288 | 2,017,356 |
| 2031 | 962,519 | 580,000 | 250,747 | 250,747 | 501,494 | 1,081,494 | 2,044,013 |
| 2032 | 979,638 | 610,000 | 244,222 | 244,222 | 488,444 | 1,098,444 | 2,078,081 |
| 2033 | 999,388 | 640,000 | 237,359 | 237,359 | 474,719 | 1,114,719 | 2,114,106 |
| 2034 | 227,438 | 670,000 | 229,759 | 229,759 | 459,519 | 1,129,519 | 1,356,956 |
| 2035 | 231,188 | 705,000 | 221,384 | 221,384 | 442,769 | 1,147,769 | 1,378,956 |
| 2036 | 234,625 | 740,000 | 212,572 | 212,572 | 425,144 | 1,165,144 | 1,399,769 |
| 2037 | 237,475 | 780,000 | 202,859 | 202,859 | 405,719 | 1,185,719 | 1,423,194 |
| 2038 | | 815,000 | 192,622 | 192,622 | 385,244 | 1,200,244 | 1,200,244 |
| 2039 | | 860,000 | 181,925 | 181,925 | 363,850 | 1,223,850 | 1,223,850 |
| 2040 | | 900,000 | 170,100 | 170,100 | 340,200 | 1,240,200 | 1,240,200 |
| 2041 | | 945,000 | 156,600 | 156,600 | 313,200 | 1,258,200 | 1,258,200 |
| 2042 | | 995,000 | 142,425 | 142,425 | 284,850 | 1,279,850 | 1,279,850 |
| 2043 | | 1,045,000 | 127,500 | 127,500 | 255,000 | 1,300,000 | 1,300,000 |
| 2044 | | 1,095,000 | 111,825 | 111,825 | 223,650 | 1,318,650 | 1,318,650 |
| 2045 | | 1,150,000 | 95,400 | 95,400 | 190,800 | 1,340,800 | 1,340,800 |
| 2046 | | 1,210,000 | 78,150 | 78,150 | 156,300 | 1,366,300 | 1,366,300 |
| 2047 | | 1,270,000 | 60,000 | 60,000 | 120,000 | 1,390,000 | 1,390,000 |
| 2048 | | 1,330,000 | 40,950 | 40,950 | 81,900 | 1,411,900 | 1,411,900 |
| 2049 | | 1,400,000 | 21,000 | 21,000 | 42,000 | 1,442,000 | 1,442,000 |
| | <u>\$14,477,119</u> | <u>\$22,750,000</u> | <u>\$6,031,233</u> | <u>\$6,138,806</u> | <u>\$12,170,040</u> | <u>\$34,920,040</u> | <u>\$49,397,159</u> |

FINANCIAL STATEMENT
(Unaudited as of September 1, 2019)

Assessed Value

| | |
|--|-------------------|
| 2019 Assessed Valuation (100% of estimated market value as of January 1, 2019) | \$386,342,885 (a) |
| Gross Debt Outstanding..... | \$33,325,000 (b) |
| Debt Service Fund Balance..... | \$1,491,979 (c) |
| Ratio of Gross Debt to 2019 Assessed Valuation as of January 1, 2019 | 8.63% |

Estimated Population as of August 2019: 10,329(d)

- (e) Certified Taxable Assessed Value within the District on January 1, 2019 \$369,924,758 and \$19,315,444 Under Review, as provided by the Galveston Central Appraisal District ("GCAD"). In accordance with the Galveston County Tax Assessor Collector 85% of what is under review is added to the Certified Value and is used to set the District tax rate for fiscal year 2019/2020. That value is \$386,342,885. See "TAXING PROCEDURES."
- (a) After issuance of the Bonds. See "DEBT SERVICE REQUIREMENTS".
- (c) After the sale of the bonds. Included in the sale of Bonds is 12 months of capitalized interest in the amount of \$672,065 included in the bonds that will be deposited to the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (f) (Based on 3.5 residents per completed single-family, multi-residential and commercial-multi (RV/Mobile Home) equivalent single-family connections (ESFCs). The 36 multi-residential connections equate to 48 ESFCs, the 50 commercial-multi equate to 297 ESFC's and the 2,606 single-family connections equate to 2,606 ESFCs.

Unlimited Tax Bonds Authorized but Unissued

| <u>Date</u> <u>Authorization</u> | <u>Purpose</u> | <u>Authorized</u> | <u>Issued</u> <u>to Date</u> | <u>Unissued</u> |
|-------------------------------------|-----------------------------|---------------------|---------------------------------|---------------------|
| 01/12/1974 | Water, Wastewater, Drainage | \$2,300,000 | \$2,300,000 | 0 |
| 06/21/1975 | Water, Wastewater, Drainage | \$360,000 | \$360,000 | 0 |
| 01/06/1996 | Water, Wastewater, Drainage | \$1,150,000 | \$1,150,000 | 0 |
| 11/06/2001 | Water, Wastewater, Drainage | \$2,850,000 | \$2,850,000 | 0 |
| 05/14/2011 | Water, Wastewater, Drainage | \$15,000,000 | \$10,000,000 | \$5,000,000 |
| 05/04/2019 | Water, Wastewater, Drainage | <u>\$39,840,000</u> | <u>\$22,750,000</u> (a) | <u>\$17,090,000</u> |
| Total | | \$61,500,000 | \$39,410,000 (a) | \$22,090,000 |

(a) Including the Bonds.

Outstanding Bonds

| <u>A. Dated</u> <u>Date</u> | <u>Series</u> | <u>Purpose</u> | <u>Original</u> <u>Principal</u> <u>Amount</u> | <u>Principal</u> <u>Amount</u> <u>09/02/2019</u> |
|--------------------------------|---------------|-----------------------------|--|--|
| 03/14/2012 | 2012 | Refunding Bonds | \$3,055,000 | \$1,550,000 |
| 03/01/2013 | 2013 | Water, Wastewater, Drainage | \$7,000,000 | \$6,210,000 |
| 09/01/2017 | 2017 | Water, Wastewater, Drainage | \$3,000,000 | \$2,815,000 |
| 11/01/2019 | 2019 | Water, Wastewater, Drainage | <u>\$22,750,000</u> (a) | <u>\$22,750,000</u> (a) |
| Total | | | 35,805,000 | \$33,325,000 |

(a) The Bonds.

Cash and Investment Balances (Unaudited as of September 1, 2019)

| | |
|-----------------------|------------------|
| Operating Fund | \$2,301,975 |
| Debt Service Fund | \$ 1,957,414 (a) |
| Capital Projects Fund | \$1,030,453 |

(a) After the sale of the bonds. Included in the sale of Bonds is 12 months of capitalized interest cost estimated at 5% of the principal amount of the Bonds (est. \$1,137,500) and will be deposited to the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

Investment Authority and Investment Practices of the District

The District has adopted an Investment Policy (the “Policy”) as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). The District’s goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation (“FDIC”) and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the portfolio.

Current Investments

The District’s funds are currently invested in TexPool, TexStar and Certificates of Deposit at various financial institutions. This investment portfolio is generally representative of the District's investment practices although the District has in the past or may in the future also invest in authorized Government Securities. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements. The District currently marks its investments to market price monthly.

[The rest of this page intentionally left blank.]

Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed, from several sources, including information contained in the "Texas Municipal Report," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

| <u> Taxing Body </u> | <u> Gross Debt Amount </u> | | <u> % of Overlpg. Debt </u> | <u> Amount of Overlpg. Debt </u> |
|---|----------------------------------|----------------------|-----------------------------------|--|
| | <u> Amount </u> | <u> As of </u> | | |
| College of the Mainland | \$103,935,000 | 08/31/19 | 2.91% | \$3,024,509 |
| Galveston County | \$247,913,720 | 08/31/19 | 1.06% | \$2,627,885 |
| Dickinson ISD | \$305,160,000 | 08/31/19 | 8.52% | <u>\$25,999,632</u> |
| TOTAL ESTIMATED OVERLAPPING DEBT | | | | \$31,652,026 |
| The District (a) | | 09/02/19 | 100.00% | <u>\$33,325,000</u> |
| TOTAL ESTIMATED DIRECT AND OVERLAPPING NET DEBT | | | | <u>\$64,977,026</u> |
| Ratio of Direct & Overlapping Net Debt to 2019 Assessed Valuation as of January 1, 2019 | | | | 16.82% |

(a) After issuance of the Bonds.

Overlapping Taxes for 2019

| <u> Overlapping Entity </u> | <u> 2019 Tax Rate Per \$100 Assessed Valuation </u> |
|---------------------------------------|---|
| Galveston County | \$0.504396 |
| Road & Flood | 0.011741 |
| Dickinson Independent School District | 1.450000 |
| College of the Mainland | 0.204254 |
| The District | <u>0.630000</u> |
| Total | <u>\$2.800391</u> |

TAX DATA

Classification of Assessed Valuation (a)

| Type Property | 2019 | | 2018 | |
|--------------------------------|----------------------|----------------|----------------------|----------------|
| | Amount | % | Amount | % |
| Single-Family Residence | \$306,671,555 | 78.79 | \$281,076,954 | 78.38 |
| Multi-Family Residence | 2,930,316 | 0.75 | 2,779,917 | 0.78 |
| Vacant Lots & Land Tracts | 39,099,59410 | 10.05 | 38,417,009 | 10.71 |
| Qualified Open-Space Land | 6,883 | 0.00 | 6,759 | 0.00 |
| Rural Land, Non-Qualified | | | | |
| Open Space | 3,377,405 | 0.87 | 3,048,390 | 0.85 |
| Commercial Real Property | 20,626,865 | 5.30 | 17,573,452 | 4.90 |
| Gas Distribution System | 368,460 | 0.09 | 339,040 | 0.10 |
| Electric Co. (Including Co-Op) | 2,566,120 | 0.66 | 2,229,810 | 0.62 |
| Telephone Co. (Inc. Co-Op) | 360,390 | 0.09 | 436,775 | 0.12 |
| Pipeline Company | 19,160 | 0.00 | 14,822 | 0.00 |
| Commercial Personal Prop. | 4,906,980 | 1.26 | 4,726,120 | 1.32 |
| Industrial & Manufacturing PP | 882,560 | 0.23 | 1,064,251 | 0.30 |
| Tangible Other Pers. | | | | |
| Mobile Home | 6,885,824 | 1.77 | 6,299,123 | 1.76 |
| Residential Inventory | 533,750 | 0.14 | 580,860 | 0.16 |
| Special Inventory | 4,340 | 0.00 | 13,930 | 0.00 |
| Total Appraised Value | \$389,240,202 | 100.00% | \$358,607,212 | 100.00% |

(a) Reflects classification of assessed valuation as supplied by the Galveston Central Appraisal District ("GCAD") prior to adjustments and exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by GCAD.

(b) In 2017 the GCAD upgraded and changed their software. The reports for previous years from the older software did not completely match with the categories currently used in the new software program.

Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

| | Assessed Valuation | Tax Rate | Tax Levy | Current | | Total | | Fiscal Year Ending |
|------|--------------------|----------|-----------|-----------|-------|-----------|-------|--------------------|
| | | | | Amount | % | Amount | % | |
| 2013 | 217,173,442 | 0.45 | 977,280 | 917,144 | 93.85 | 970,640 | 99.32 | 06/30/14 |
| 2014 | 226,892,748 | 0.45 | 1,021,017 | 958,610 | 93.94 | 1,013,208 | 99.24 | 06/30/15 |
| 2015 | 253,141,196 | 0.45 | 1,139,135 | 1,051,995 | 92.42 | 1,127,822 | 99.03 | 06/30/16 |
| 2016 | 267,779,796 | 0.45 | 1,205,009 | 1,136,938 | 94.18 | 1,188,941 | 98.75 | 06/30/17 |
| 2017 | 339,750,351 | 0.45 | 1,528,877 | 1,426,536 | 93.31 | 1,490,824 | 97.83 | 06/30/18 |
| 2018 | 358,607,212 | 0.45 | 1,613,732 | 1,504,882 | 93.25 | 1,514,978 | 95.69 | 06/30/19 (a) |
| 2019 | 386,342,885 | 0.63 | 2,433,960 | | | | | 06/30/20 |

(a) The 2018 tax collections through September 23, 2019. The District's fiscal year end is June 30.

District Tax Rates

| Tax Rate Per \$100 A.V. | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|-------------------------|--------|--------|----------|----------|----------|--------|
| Debt Service | \$0.45 | \$0.18 | \$0.2582 | \$0.2459 | \$0.2622 | \$0.30 |
| Maintenance | \$0.18 | \$0.27 | \$0.1918 | \$0.2041 | \$0.1878 | \$0.15 |
| Total | \$0.63 | \$0.45 | \$0.4500 | \$0.4500 | \$0.4500 | \$0.45 |

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect a continuing direct ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to debt service taxes, which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held within the District on August 14, 1999, voters of the District authorized the levy of a maintenance tax not to exceed \$0.30 per \$100 of assessed valuation of taxable property within the District. As shown above under "District Tax Rates," the District levied a maintenance and operations tax of \$0.18 per \$100 assessed valuation for tax year 2019.

Top Taxpayers

The following list of principal taxpayers was provided by Galveston County Appraisal District based on the 2019 and 2018 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

| Taxpayer | Type of Property | 2019 | 2018 |
|--------------------------------------|-------------------------|----------------------------|----------------------------|
| Centerpoint Energy Inc. | Utility | \$2,566,120 | \$2,229,810 |
| Halili, Hajrulla Trustee | Residence & Business | 2,111,097 | 1,716,900 |
| Halili - Residence | Residence | 1,693,521 | 1,538,655 |
| Wiggins - Residence | Residence | 1,534,110 | 1,524,990 |
| Jardina - Residence | Residence | 1,454,430 | 1,261,130 |
| In God We Trust Investments LLC | Residence & Business | 1,329,010 | (a) |
| Gazania Invetments LLC | Residence & Business | 1,185,737 | (a) |
| Moore - Residence | Residence | 1,161,357 | 1,142,487 |
| Halili Razz Trust | Residence & Business | 1,157,910 | (a) |
| Shahroodi, Shahrokh | Residence | 1,110,590 | 1,007,050 |
| MP Apartments LLC | Multi-Family Apts. | (a) | 1,116,913 |
| Cassius Limited | Residence | (a) | 1,040,370 |
| Barrett – Residence | Residence | (a) | 1,011,190 |
| Total | | <u>\$15,303,882</u> | <u>\$13,589,495</u> |
| Percent of Assessed Valuation | | 3.97% | 3.79% |

(a)Not a top ten taxpayer in respective year.

Tax Adequacy for Debt Service

The calculations shown below are solely for purposes of illustration only and are based on the certified assessed value for 2019 as of January 1, 2019 and utilize tax rates adequate to service the District's total projected debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - Impact on District Tax Rates."

| | |
|--|-------------|
| Projected Average Annual Debt Service Requirements on the Bonds (2020 through 2033) | \$1,944,190 |
| \$0.53 Tax Rate on 2019 Assessed Valuation as of January 1, 2019 of \$386,342,885 @ 95% collections produces..... | \$1,945,236 |
| Projected Maximum Annual Debt Service Requirements on the Bonds (2034) | \$2,114,106 |
| \$0.58 Tax Rate on 2019 Assessed Valuation as of January 1, 2019 of \$386,342,885 @ 95% collections produces..... | \$2,128,749 |

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy a continuing direct ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") 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 herein under "THE BONDS – Source of Payment." Under Texas law, the Board is also authorized to levy and collect a continuing direct annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by its voters. See "TAX DATA - Tax Rate Limitation".

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property 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 the responsibility for reviewing and equalizing the values established by the appraisal district. The Galveston Central Appraisal District (the "Appraisal District" or "GCAD") has the responsibility for appraising property for all taxing units within Galveston County, including the District. Such appraisal values are subject to review and change by the Galveston Central Appraisal Review Board (the "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.

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; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. 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; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

Property owned by a disabled veteran or a veteran who died while on active duty has been granted an exemption up to \$3,000 of assessed value. Partially exempt to between \$5,000 and \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or spouse or certain children. House Bill 3613, enacted by the 81st Texas Legislature during its Regular Session, added Section 11.131 to the Texas Tax Code. Section 1 of this law states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of person sixty-five (65) years or older, qualifying surviving spouses of persons sixty-five (65) years or older and of certain disabled persons to the extent of \$3,000 of appraised value or more. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

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 (20%) percent of the appraised value of residential homesteads 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. In 1989 the District adopted a 10% general homestead exemption.

Tax Abatement: Galveston County may designate all or a part of the area within the District as a reinvestment zone. Thereafter, Galveston County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the 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 improvement or repairs to the property in conformity with a comprehensive plan. To date, none of the area within the District has been designated as a reinvestment zone and the District has not executed any abatement agreements.

Freeport Goods and Goods-in-Transit Exemptions:

A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from reefing petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2012 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for public 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. A property owner who received the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has not taken any action which would allow taxation of all such goods-in-transit personal property for tax year 2012 and prior years.

Valuation of Property for Taxation

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

The Property 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 market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. 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 Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to 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.

The Property Tax Code requires the GCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the GCAD at least once every three years. It is not known what frequency of reappraisal will be utilized by the GCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the GCAD a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the GCAD chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition of review in State district court. 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. Additionally, taxing units may bring suit against the GCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. Each year the rate of taxation is set by the Board based upon (a) the valuation of property within the District as of the preceding January 1 and (b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due or when billed 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. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. In addition, if the District engages an attorney for the collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

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 8% over the previous year. 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 rate 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'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 for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "FINANCIAL STATEMENT – Overlapping Taxes"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. 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 proceeding which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - General - Tax Collections and Foreclosure Remedies."

LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, upon all taxable property within the District. The District will also furnish the approving legal opinion of Baker Williams Matthiesen LLP, Houston, Texas, and Reid Strickland & Gillette, LLP, Baytown, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds 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. The District will also deliver the legal opinion of Special Tax Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Matters" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, upon all taxable property within the District. Errors or omissions in the printing of such legal opinion on the Bonds shall not affect the validity of the Bonds nor constitute cause for the failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds.

The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and therefore such fees are contingent upon the sale and delivery of the Bonds.

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

Legal Review

Bond Counsel has reviewed the information appearing in this Official Statement under the caption "THE DISTRICT - General," "THE BONDS (other than "Book-Entry Only)," "TAXING PROCEDURES," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION," (other than information regarding "Compliance with Prior Undertakings") and Special Tax Counsel has reviewed the information appearing under "TAX MATTERS", each 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 developers 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.

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.

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 or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attaching the Bonds; restraining or enjoining the issuance, 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 or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal minimum taxes. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or

not occurring), or any other matters coming to Special Tax Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

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 subject to amendment to or repeal of same as set forth below. Under the agreement, the District will be obligated to provide certain financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). At such time as the aggregate outstanding bonds of the District do not exceed \$10,000,000, including the outstanding amount of the Bonds, the District is then required to provide, and so agrees to provide only (i) financial information and operating data which is customarily prepared by the District and is publicly available and (ii) notice within 10 business days after the occurrence of one or more of the 16 listed events described below. See "CONTINUING DISCLOSURE OF INFORMATION—Listed Event Notices". The MSRB has established the Electronic Municipal Market Access ("EMMA") system for access to such information.

Annual Reports

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and publicly available, annually to MSRB. The financial information and operating data which will be provided with respect to the District is found in APPENDIX A (the District's Audited Financial Statements). The District will update and provide this information to MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any information concerning the District 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 of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to MSRB within such six-month period and audited financial statements when the audit report becomes available.

The District may provide such information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial information and operating data which is customarily prepared by the District by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Listed 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 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, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of financial obligation of the District, if material; (16) default, event of acceleration, termination event, modification of terms, or other similar events under terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide the MSRB, in a timely manner, notice of any failure by the District to provide the required annual financial information described above under “Annual Reports” and any notices of material events in accordance with this section. 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.”

For purposes of the event numbered (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under a U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement of liquidation by a court or governmental authority having supervision or jurisdiction over substantially all the assets or business of the District. A “financial obligation” as described in (15) and (16) above means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, and existing or planned obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to MSRB consistent with the Rule.

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Compliance with Prior Undertakings

This is the District's eighth issuance of Bonds, including the Series 2012 Refunding Bonds. Although some prior compliance filings were not made timely due to administrative oversight, the District has now complied with all continuing disclosure agreements made by it pursuant to the Rule. In addition, the District has put certain administrative procedures in place to help ensure timely compliance with its annual obligations in the future.

OTHER INFORMATION

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of this Official Statement. 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 act of any other jurisdiction. 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 sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

Authenticity of Financial Information

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

Forward Looking Statements

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

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

OFFICIAL STATEMENT

Preparation

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Engineer and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not be construed as a representation on the part of the District except as described below under "Certification of Official Statement". Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein 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.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as the Financial Advisor to the District to render certain professional services including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, SAMCO Capital Markets, Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale 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.

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by AEI Engineering LLC and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in the Official Statement relating to the certified assessed valuation of property in the District and, in particular such information contained in the sections captioned "FINANCIAL STATEMENT" and "TAX DATA" has been provided by the Galveston Central Appraisal District, in reliance upon the authority as experts in appraising and tax assessing.

Tax Assessor/Collector: The information contained in this Official Statement relating to principal taxpayers and tax collection rates has been provided by Ms. Cheryl Johnson Galveston County Tax Assessor/Collector in reliance upon her authority as an expert in the field of tax assessing and collecting.

Auditor: The District's financial statements for the year ending June 30, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's June 30, 2019, financial statement.

Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described below. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of

the Rule), unless the Initial Purchaser provides written notice to the District that less than all the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

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 and belief, 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, description 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.

Official Statement “Deemed Final”

For purposes of compliance with Rule 15c(2)-12 promulgated by the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “FINAL OFFICIAL STATEMENT” of the District with respect to the Bonds, as that term is defined in Rule 15c(2)-12.

This Official Statement was approved by the Board of Directors of San Leon Municipal Utility District, as of the date shown on the first page hereof.

/s/ Joe Manchaca
President, Board of Directors
San Leon Municipal Utility District

/s/ Keith Gossett
Secretary, Board of Directors
San Leon Municipal Utility District

PHOTOGRAPHS

The enclosed photos were taken in the District. The following photographs were taken in the District. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District.

(this page intentionally left blank)

















APPENDIX A
District Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of San Leon Municipal Utility District for the fiscal year ended June 30, 2019. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

(this page intentionally left blank)

SAN LEON MUNICIPAL UTILITY DISTRICT

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

SAN LEON MUNICIPAL UTILITY DISTRICT

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 3-7 |
| BASIC FINANCIAL STATEMENTS | |
| STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET | 8-11 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION | 12 |
| STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES | 13-14 |
| RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES | 15 |
| NOTES TO THE FINANCIAL STATEMENTS | 16-27 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL-GENERAL FUND | 29 |
| SUPPLEMENTARY INFORMATION-REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE | |
| NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements) | |
| SERVICES AND RATES | 31-33 |
| GENERAL FUND EXPENDITURES | 34-35 |
| INVESTMENTS | 36 |
| TAXES LEVIED AND RECEIVABLE | 37-38 |
| LONG-TERM DEBT SERVICE REQUIREMENTS | 39-42 |
| CHANGES IN LONG-TERM BOND DEBT | 43-44 |
| COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS | 45-48 |
| BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS | 49-50 |
| OTHER SUPPLEMENTARY INFORMATION | |
| PRINCIPAL TAXPAYERS | 52 |
| ASSESSED VALUE BY CLASSIFICATION | 53 |
| ESTIMATED OVERLAPPING DEBT | 54 |

THIS PAGE INTENTIONALLY LEFT BLANK

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Leon Municipal Utility District
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of San Leon Municipal Utility District (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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.

Board of Directors
San Leon Municipal
Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The supplementary information and the Other Supplementary Information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 18, 2019

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

Management's discussion and analysis of San Leon Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

FUND FINANCIAL STATEMENTS (Continued)

The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explains the differences between the two presentations and assists in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$5,400,749 as of June 30, 2019. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities as well as vehicles and equipment less any debt used to acquire those assets that is still outstanding).

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

A comparative analysis of government-wide changes in net position is presented below:

| | Summary of Changes in the Statement of Net Position | | |
|---|---|---------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Current and Other Assets | \$ 5,547,022 | \$ 6,201,514 | \$ (654,492) |
| Capital Assets (Net of Accumulated Depreciation) | 11,612,344 | 11,588,260 | 24,084 |
| Total Assets | \$ 17,159,366 | \$ 17,789,774 | \$ (630,408) |
| Bonds and Notes Payable | \$ 11,004,259 | \$ 11,501,090 | \$ 496,831 |
| Other Liabilities | 754,358 | 679,155 | (75,203) |
| Total Liabilities | \$ 11,758,617 | \$ 12,180,245 | \$ 421,628 |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 1,623,937 | \$ 2,569,789 | \$ (945,852) |
| Restricted | 1,686,588 | 1,803,217 | (116,629) |
| Unrestricted | 2,090,224 | 1,236,523 | 853,701 |
| Total Net Position | \$ 5,400,749 | \$ 5,609,529 | \$ (208,780) |

The following table provides a summary of the District's operations for the years ending June 30, 2019, and June 30, 2018.

| | Summary of Changes in the Statement of Activities | | |
|---------------------------------|---|--------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Revenues: | | | |
| Property Taxes | \$ 1,612,478 | \$ 1,525,055 | \$ 87,423 |
| Charges for Services | 3,693,329 | 3,296,214 | 397,115 |
| Other Revenues | 196,423 | 183,631 | 12,792 |
| Total Revenues | \$ 5,502,230 | \$ 5,004,900 | \$ 497,330 |
| Expenses for Services | 5,711,010 | 5,039,468 | (671,542) |
| Change in Net Position | \$ (208,780) | \$ (34,568) | \$ (174,212) |
| Net Position, Beginning of Year | 5,609,529 | 5,644,097 | (34,568) |
| Net Position, End of Year | \$ 5,400,749 | \$ 5,609,529 | \$ (208,780) |

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2019, were \$4,614,490, a decrease of \$758,598 from the prior year.

The General Fund fund balance increased by \$822,585, primarily due to transfers from the Capital Projects Fund to reimburse for inflow and infiltration expenditures.

The Debt Service Fund fund balance decreased by \$114,416, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$1,466,767, primarily due to transfers to the General Fund and expenditures paid from bond proceeds received in a prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$141,506 lower than budgeted revenues, primarily due to lower than anticipated service revenues, offset by higher than anticipated tap connection and inspection fees and miscellaneous revenues. Actual expenditures exceeded budgeted expenditures by \$123,792, primarily due to higher than anticipated repairs and maintenance and bad debt expense, offset by transfers from the Capital Projects Fund to reimburse capital costs.

CAPITAL ASSETS

Capital assets as of June 30, 2019, total \$11,612,344 (net of accumulated depreciation) and include land, buildings, vehicles and equipment as well as the water and wastewater systems. Construction in progress includes costs related to the Wastewater Treatment Plant Expansion and generator replacement.

| Capital Assets At Year-End, Net of Accumulated Depreciation | | | |
|---|----------------------|----------------------|----------------------------------|
| | 2019 | 2018 | Change Positive (Negative) |
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | \$ 151,807 | \$ 151,807 | \$ |
| Construction in Progress | 491,660 | | 491,660 |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Buildings, Vehicles, and Equipment | 274,433 | 341,355 | (66,922) |
| Water System | 5,391,779 | 5,561,816 | (170,037) |
| Wastewater System | 5,302,665 | 5,533,282 | (230,617) |
| Total Net Capital Assets | \$ 11,612,344 | \$ 11,588,260 | \$ 24,084 |

**SAN LEON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

LONG-TERM DEBT ACTIVITY

As of June 30, 2019, the District had total bond debt payable of \$11,065,000. The changes in the debt position of the District during the fiscal year ended June 30, 2019, are summarized as follows:

| | |
|----------------------------------|----------------------|
| Bond Debt Payable, July 1, 2018 | \$ 11,530,000 |
| Less: Bond Principal Paid | <u>465,000</u> |
| Bond Debt Payable, June 30, 2019 | <u>\$ 11,065,000</u> |

The District's Series 2013 and 2017 bonds carry insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corporation and Municipal Assurance Corp., respectively. The District's underlying rating is "BBB+" (S&P) and "A3" (Moody's).

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to San Leon Municipal Utility District, 443 24th Street, San Leon, Texas 77539.

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 776,950 | \$ 121,952 |
| Investments | 1,556,912 | 1,331,113 |
| Cash with Galveston County Tax Office | 2,269 | 1,750 |
| Receivables: | | |
| Property Taxes | 138,731 | 118,651 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts (Net of Allowance for Doubtful Accounts of \$130,000) | 299,227 | |
| Due from Other Funds | | 192,330 |
| Land | | |
| Construction in Progress | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| TOTAL ASSETS | \$ 2,774,089 | \$ 1,765,796 |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|--------------------------|---------------------|----------------------|------------------------------|
| \$ 354,048 | \$ 1,252,950 | \$ | \$ 1,252,950 |
| 805,419 | 3,693,444 | | 3,693,444 |
| | 4,019 | | 4,019 |
| | 257,382 | | 257,382 |
| | | 40,000 | 40,000 |
| | 299,227 | | 299,227 |
| 497 | 192,827 | (192,827) | |
| | | 151,807 | 151,807 |
| | | 491,660 | 491,660 |
| | | 10,968,877 | 10,968,877 |
| <u>\$ 1,159,964</u> | <u>\$ 5,699,849</u> | <u>\$ 11,459,517</u> | <u>\$ 17,159,366</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 196,238 | \$ |
| Accrued Interest Payable | | |
| Due to Other Funds | 192,827 | |
| Security Deposits | 294,800 | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| TOTAL LIABILITIES | \$ 683,865 | \$ - 0 - |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property Taxes | \$ 138,731 | \$ 118,651 |
| FUND BALANCES | | |
| Restricted for Authorized Construction | \$ | \$ |
| Restricted for Debt Service | | 1,647,145 |
| Unassigned | 1,951,493 | |
| TOTAL FUND BALANCES | \$ 1,951,493 | \$ 1,647,145 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 2,774,089 | \$ 1,765,796 |
| NET POSITION | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| TOTAL NET POSITION | | |

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

| <u>Capital Projects Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|----------------------------------|---------------------|-----------------------|--------------------------------------|
| \$ 144,112 | \$ 340,350 | \$ | \$ 340,350 |
| | | 119,208 | 119,208 |
| | 192,827 | (192,827) | |
| | 294,800 | | 294,800 |
| | | 490,000 | 490,000 |
| | | <u>10,514,259</u> | <u>10,514,259</u> |
| <u>\$ 144,112</u> | <u>\$ 827,977</u> | <u>\$ 10,930,640</u> | <u>\$ 11,758,617</u> |
| <u>\$ - 0 -</u> | <u>\$ 257,382</u> | <u>\$ (257,382)</u> | <u>\$ - 0 -</u> |
| \$ 1,015,852 | \$ 1,015,852 | \$ (1,015,852) | \$ |
| | 1,647,145 | (1,647,145) | |
| | <u>1,951,493</u> | <u>(1,951,493)</u> | |
| <u>\$ 1,015,852</u> | <u>\$ 4,614,490</u> | <u>\$ (4,614,490)</u> | <u>\$ - 0 -</u> |
| <u>\$ 1,159,964</u> | <u>\$ 5,699,849</u> | | |
| | | \$ 1,623,937 | \$ 1,623,937 |
| | | 1,686,588 | 1,686,588 |
| | | <u>2,090,224</u> | <u>2,090,224</u> |
| | | <u>\$ 5,400,749</u> | <u>\$ 5,400,749</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

| | | |
|--|----|-----------|
| Total Fund Balances - Governmental Funds | \$ | 4,614,490 |
|--|----|-----------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

| | | |
|--|--|------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | | 11,612,344 |
|--|--|------------|

| | | |
|--|--|---------|
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. | | 297,382 |
|--|--|---------|

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

| | | |
|--|---------------------|---------------------|
| Accrued Interest Payable | \$ (119,208) | |
| Bonds Payable | <u>(11,004,259)</u> | <u>(11,123,467)</u> |
| Total Net Position - Governmental Activities | | <u>\$ 5,400,749</u> |

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

THIS PAGE INTENTIONALLY LEFT BLANK

SAN LEON MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

| | General Fund | Debt Service Fund |
|---|---------------------|----------------------|
| REVENUES | | |
| Property Taxes | \$ 936,834 | \$ 652,330 |
| Water Service | 1,352,900 | |
| Wastewater Service | 1,029,799 | |
| Street Lighting | 124,587 | |
| Fire Fighting Service | 264,318 | |
| Solid Waste Service | 561,140 | |
| Penalty and Interest | 34,444 | 57,456 |
| Tap Connection and Inspection Fees | 268,685 | |
| Miscellaneous Revenues | 127,887 | 25,790 |
| | <u>\$ 4,700,594</u> | <u>\$ 735,576</u> |
| EXPENDITURES/EXPENSES | | |
| Service Operations: | | |
| Personnel | \$ 929,969 | \$ |
| Professional Fees | 142,376 | 18,268 |
| Contracted Services | 881,267 | 715 |
| Purchased Water | 514,338 | |
| Utilities | 116,562 | |
| Repairs and Maintenance | 1,253,521 | |
| Street Lighting | 73,372 | |
| Depreciation | | |
| Other | 668,056 | |
| Capital Outlay | | |
| Debt Service: | | |
| Bond Principal | | 465,000 |
| Bond Interest | | 366,009 |
| Note Principal | 29,478 | |
| Note Interest | 553 | |
| | <u>\$ 4,609,492</u> | <u>\$ 849,992</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER | | |
| EXPENDITURES/EXPENSES | <u>\$ 91,102</u> | <u>\$ (114,416)</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers In(Out) | <u>\$ 731,483</u> | <u>\$ -0-</u> |
| NET CHANGE IN FUND BALANCES | <u>\$ 822,585</u> | <u>\$ (114,416)</u> |
| CHANGE IN NET POSITION | | |
| FUND BALANCES/NET POSITION - JULY 1, 2018 | <u>1,128,908</u> | <u>1,761,561</u> |
| FUND BALANCES/NET POSITION - JUNE 30, 2019 | <u>\$ 1,951,493</u> | <u>\$ 1,647,145</u> |

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

| Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--------------------------|---------------------|---------------------|----------------------------|
| \$ | \$ 1,589,164 | \$ 23,314 | \$ 1,612,478 |
| | 1,352,900 | | 1,352,900 |
| | 1,029,799 | | 1,029,799 |
| | 124,587 | | 124,587 |
| | 264,318 | | 264,318 |
| | 561,140 | | 561,140 |
| | 91,900 | | 91,900 |
| | 268,685 | | 268,685 |
| 42,746 | 196,423 | | 196,423 |
| <u>\$ 42,746</u> | <u>\$ 5,478,916</u> | <u>\$ 23,314</u> | <u>\$ 5,502,230</u> |
| \$ | \$ 929,969 | \$ | \$ 929,969 |
| | 160,644 | | 160,644 |
| | 881,982 | | 881,982 |
| | 514,338 | | 514,338 |
| | 116,562 | | 116,562 |
| 285,856 | 1,539,377 | | 1,539,377 |
| | 73,372 | | 73,372 |
| | | 467,576 | 467,576 |
| 514 | 668,570 | | 668,570 |
| 491,660 | 491,660 | (491,660) | |
| | 465,000 | (465,000) | |
| | 366,009 | (7,942) | 358,067 |
| | 29,478 | (29,478) | |
| | 553 | | 553 |
| <u>\$ 778,030</u> | <u>\$ 6,237,514</u> | <u>\$ (526,504)</u> | <u>\$ 5,711,010</u> |
| <u>\$ (735,284)</u> | <u>\$ (758,598)</u> | <u>\$ 549,818</u> | <u>\$ (208,780)</u> |
| <u>\$ (731,483)</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| \$ (1,466,767) | \$ (758,598) | \$ 758,598 | \$ |
| | | (208,780) | (208,780) |
| 2,482,619 | 5,373,088 | 236,441 | 5,609,529 |
| <u>\$ 1,015,852</u> | <u>\$ 4,614,490</u> | <u>\$ 786,259</u> | <u>\$ 5,400,749</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | |
|---|---------------------|
| Net Change in Fund Balances - Governmental Funds | \$ (758,598) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | 23,314 |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | (467,576) |
| Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | 491,660 |
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | 465,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | 7,942 |
| Governmental funds report note principal payments as expenditures. However, in the Statement of Net Position, note principal payments are reported as decreases in long-term liabilities. | <u>29,478</u> |
| Change in Net Position - Governmental Activities | <u>\$ (208,780)</u> |

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

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. CREATION OF DISTRICT

San Leon Municipal Utility District, located in Galveston County, Texas, (the “District”), was created May 26, 1965, by House Bill 1082 Chapter 520, Acts of the 59th Legislature of the State of Texas. Pursuant to the provisions of Chapter 49 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collections and disposal including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 28, 1973, and the first bonds were sold on July 10, 1975.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification set forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|---------------------|-------|
| Buildings | 40 |
| Water System | 10-45 |
| Wastewater System | 10-45 |
| All Other Equipment | 3-20 |

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

Payments are made into the Social Security system for employees of the District. In addition, other retirement plan arrangements have been made as further described in Note 10. The Internal Revenue Service has determined that the directors are considered employees for federal payroll tax purposes only. Directors do not participate in the retirement plan.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. LONG-TERM DEBT

| | Refunding Series 2012 | Series 2013 | Series 2017 |
|---|---------------------------|---------------------------|---------------------------|
| Amounts Outstanding – June 30, 2019 | \$ 1,775,000 | \$ 6,380,000 | \$ 2,910,000 |
| Interest Rates | 3.40% | 3.00% - 4.25% | 2.25% - 3.25% |
| Maturity Dates – Serially Beginning/Ending | September 1, 2019/2025 | September 1, 2019/2033 | September 1, 2019/2037 |
| Interest Payment Dates | September 1/ March 1 | September 1/ March 1 | September 1/ March 1 |
| Callable Dates | N/A | September 1, 2020* | September 1, 2024* |

* On any date thereafter, at a price equal to the par value plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Series 2017 term bonds maturing September 1, 2029, September 1, 2031, September 1, 2033, September 1, 2035 and September 1, 2037 are subject to mandatory redemption beginning September 1, 2028, September 1, 2030, September 1, 2032, September 1, 2034 and September 1, 2036, respectively.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2019:

| | July 1, 2018 | Additions | Retirements | June 30, 2019 |
|-----------------------|----------------------|----------------------------|-------------------|----------------------|
| Bonds Payable | \$ 11,530,000 | \$ | \$ 465,000 | \$ 11,065,000 |
| Unamortized Discounts | (152,983) | | (10,329) | (142,654) |
| Unamortized Premiums | 94,595 | | 12,682 | 81,913 |
| Bonds Payable, Net | <u>\$ 11,471,612</u> | <u>\$ -0-</u> | <u>\$ 467,353</u> | <u>\$ 11,004,259</u> |
| | | Amount Due Within One Year | | \$ 490,000 |
| | | Amount Due After One Year | | 10,514,259 |
| | | Bonds Payable, Net | | <u>\$ 11,004,259</u> |

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2019, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------------|---------------------|----------------------|
| 2020 | \$ 490,000 | \$ 348,762 | \$ 838,762 |
| 2021 | 510,000 | 330,707 | 840,707 |
| 2022 | 530,000 | 313,075 | 843,075 |
| 2023 | 555,000 | 295,800 | 850,800 |
| 2024 | 575,000 | 277,810 | 852,810 |
| 2025-2029 | 3,300,000 | 1,101,544 | 4,401,544 |
| 2030-2034 | 4,245,000 | 508,606 | 4,753,606 |
| 2035-2038 | 860,000 | 57,009 | 917,009 |
| | <u>\$ 11,065,000</u> | <u>\$ 3,233,313</u> | <u>\$ 14,298,313</u> |

On May 4, 2019, the District voters authorized the issuance of \$39,840,000 in bonds for the purpose of construction and acquisition of water, sewer and drainage facilities and improvements. As of June 30, 2019, the District had authorized but unissued bonds in the amount of \$5,000,000. 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.

Subsequent to year-end, the District anticipates closing on the sale of its Series 2019 Unlimited Tax Bonds in the amount of \$22,750,000. The District anticipates using the proceeds for the Wastewater Treatment Plant Expansion, 48" outfall line and to finance certain engineering and bond issuance costs. As of the date of this report, the bonds have not been sold.

During the year ended June 30, 2019, the District levied an ad valorem debt service tax rate of \$0.18 per \$100 of assessed valuation, which resulted in a tax levy of \$646,119 on the adjusted taxable valuation of \$358,607,212 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 8 for the maintenance tax levy.

The District's tax calendar is as follows:

- Levy Date - October 1 or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt but not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide continuing disclosure of certain general financial information included in an annual audit to certain information repositories. The audit, which includes audited annual financial statements, is to be provided at the end of each fiscal year and shall continue to be provided through the life of the bonds.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,465,777 and the bank balance was \$1,615,774. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2019, as listed below:

| | Cash | Certificate of Deposit | Total |
|-----------------------|---------------------|---------------------------|---------------------|
| GENERAL FUND | \$ 776,950 | \$ 212,827 | \$ 989,777 |
| DEBT SERVICE FUND | 121,952 | | 121,952 |
| CAPITAL PROJECTS FUND | 354,048 | | 354,048 |
| TOTAL DEPOSITS | <u>\$ 1,252,950</u> | <u>\$ 212,827</u> | <u>\$ 1,465,777</u> |

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

The District invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and FirstSouthwest, a Division of Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Certificates of deposit are recorded at acquisition cost. As of June 30, 2019, the District had the following investments and maturities:

| <u>Fund and Investment Type</u> | <u>Fair Value</u> | <u>Maturities of Less Than 1 Year</u> |
|-------------------------------------|---------------------------|---|
| <u>GENERAL FUND</u> | | |
| TexPool | \$ 1,344,085 | \$ 1,344,085 |
| Certificate of Deposit | 212,827 | 212,827 |
| <u>DEBT SERVICE FUND</u> | | |
| TexPool | 1,075,891 | 1,075,891 |
| TexSTAR | 255,222 | 255,222 |
| <u>CAPITAL PROJECTS FUND</u> | | |
| TexSTAR | 805,419 | 805,419 |
| TOTAL INVESTMENTS | <u>\$3,693,444</u> | <u>\$ 3,693,444</u> |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, the District's investments in TexPool and TexSTAR were rated AAAM by Standard and Poor's. The District also manages credit risk by typically investing in certificates of deposit with balances below FDIC and NCUA coverages.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool and TexSTAR to have maturities of less than one year due to the fact the share positions can be redeemed each day at the discretion of the District. The District also manages interest rate risk by investing in certificates of deposit with maturities less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. 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 and natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 is as follows:

| | July 1, 2018 | Increases | Decreases | June 30, 2019 |
|--|----------------------|---------------------|-----------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land and Land Improvements | \$ 151,807 | \$ | \$ | \$ 151,807 |
| Construction in Progress | | 491,660 | | 491,660 |
| Total Capital Assets Not Being Depreciated | <u>\$ 151,807</u> | <u>\$ 491,660</u> | <u>\$ - 0 -</u> | <u>\$ 643,467</u> |
| Capital Assets Subject to Depreciation | | | | |
| Buildings, Vehicles, and Equipment | \$ 964,807 | \$ | \$ | \$ 964,807 |
| Water System | 7,682,146 | | | 7,682,146 |
| Wastewater System | 10,327,949 | | | 10,327,949 |
| Total Capital Assets Subject to Depreciation | <u>\$ 18,974,902</u> | <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | <u>\$ 18,974,902</u> |
| Less Accumulated Depreciation | | | | |
| Buildings, Vehicles, and Equipment | \$ 623,452 | \$ 66,922 | \$ | \$ 690,374 |
| Water System | 2,120,330 | 170,037 | | 2,290,367 |
| Wastewater System | 4,794,667 | 230,617 | | 5,025,284 |
| Total Accumulated Depreciation | <u>\$ 7,538,449</u> | <u>\$ 467,576</u> | <u>\$ - 0 -</u> | <u>\$ 8,006,025</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,436,453</u> | <u>\$ (467,576)</u> | <u>\$ - 0 -</u> | <u>\$ 10,968,877</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 11,588,260</u> | <u>\$ 24,084</u> | <u>\$ - 0 -</u> | <u>\$ 11,612,344</u> |

NOTE 8. MAINTENANCE TAX

On August 14, 1999, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.30 per \$100 of assessed valuation of taxable property within the District. During the year ended June 30, 2019, the District levied an ad valorem maintenance tax rate of \$0.27 per \$100 of assessed valuation, which resulted in a tax levy of \$969,178 on the adjusted taxable valuation of \$358,607,212 for the 2018 tax year. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's water and sewer system.

NOTE 9. SURFACE WATER SUPPLY CONTRACT

On May 13, 1985, the District executed an agreement with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"). This agreement has been subsequently amended. The contract allows the Authority to acquire, construct and operate a water treatment plant and related water supply system in order to provide potable water to its customers. Charges to the District include its allocation of raw water charges, capital charges and operating and maintenance charges. During the current fiscal year, the District recorded \$514,338 in water costs attributable to this contract. The term of this agreement was extended through December 31, 2027.

SAN LEON MUNICIPAL UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10. RETIREMENT PLAN

On March 1, 1997, the District implemented a Simple Individual Retirement Account (IRA) to benefit the employees of the District. This retirement plan calls for the District to match up to 3% of each employee's contribution based on employee gross wages. The accounts are set up in each participating employee's name and are the property of the named employee. During the current year, the District's share of cost associated with this plan was \$17,100.

NOTE 11. STREET LIGHTING

On April 23, 1997, the Texas Legislature passed a bill which allows the District, with voter approval, to install, operate and maintain street lighting. The District can assess the cost of installation, operating and maintaining the street lighting as an additional charge on the monthly billings of the District's customers. In November 1999, the voters of the District approved street lighting for the District. The current street lighting charge is \$3.95 per month per customer. During the current year, the District recorded \$124,587 in revenues and \$73,372 in costs related to street lighting.

NOTE 12. FIRE PREVENTION SERVICES

On August 10, 1982 the District entered into a Fire Prevention Service Agreement with San Leon Volunteer Fire Department. This agreement was amended in 1998, 2006, 2009 and 2011. Effective March 22, 2011, the District began billing a mandatory fee of \$8.00 per month per customer for fire prevention services. During the current fiscal year, the District received \$264,318 in fire prevention service revenues.

NOTE 13. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2019, the General Fund recorded a payable in the amount of \$192,330 to the Debt Service Fund for debt service tax collections and a payable in the amount of \$497 to the Capital Projects Fund for expenditures related to a previous bond issue. During the current fiscal year, the Capital Projects Fund transferred \$731,483 to reimburse the General Fund for inflow and infiltration expenditures paid in a prior year.

NOTE 14. NOTES PAYABLE

In a prior year, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX31B Compact Excavator. The monthly payments were \$1,723 with interest accruing at 5.85% annually on the unpaid balance. This note was paid in full in the current fiscal year.

On October 4, 2016, the District entered into a 36-month Equipment Financing Agreement with CNH Industrial Capital America LLC to finance a Case CX36B Compact Excavator. The monthly payments were \$968 with interest accruing at 1.90% annually on the unpaid balance. This note was paid in full in the current fiscal year.

SAN LEON MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

THIS PAGE INTENTIONALLY LEFT BLANK

SAN LEON MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|--|------------------------------|---------------------|------------------------------------|
| REVENUES | | | |
| Property Taxes | \$ 925,000 | \$ 936,834 | \$ 11,834 |
| Water Service | 1,400,000 | 1,352,900 | (47,100) |
| Wastewater Service | 1,300,000 | 1,029,799 | (270,201) |
| Street Lighting | 125,000 | 124,587 | (413) |
| Fire Fighting Service | 275,000 | 264,318 | (10,682) |
| Solid Waste Service | 600,000 | 561,140 | (38,860) |
| Penalty and Interest | 32,500 | 34,444 | 1,944 |
| Tap Connection and Inspection Fees | 150,000 | 268,685 | 118,685 |
| Miscellaneous Revenues | 34,600 | 127,887 | 93,287 |
| TOTAL REVENUES | \$ 4,842,100 | \$ 4,700,594 | \$ (141,506) |
| EXPENDITURES | | | |
| Services Operations: | | | |
| Personnel | \$ 974,000 | \$ 929,969 | \$ 44,031 |
| Professional Fees | 178,000 | 142,376 | 35,624 |
| Fire Fighting Expenses | 350,000 | 263,976 | 86,024 |
| Solid Waste Service | 625,000 | 599,962 | 25,038 |
| Purchased Water | 490,000 | 514,338 | (24,338) |
| Utilities | 130,000 | 116,562 | 13,438 |
| Repairs and Maintenance | 1,070,000 | 1,253,521 | (183,521) |
| Street Lighting | 85,000 | 73,372 | 11,628 |
| Other | 583,700 | 715,416 | (131,716) |
| TOTAL EXPENDITURES | \$ 4,485,700 | \$ 4,609,492 | \$ (123,792) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 356,400 | \$ 91,102 | \$ (265,298) |
| OTHER FINANCING SOURCES(USES) | | | |
| Transfers In(Out) | \$ - 0 - | \$ 731,483 | \$ 731,483 |
| NET CHANGE IN FUND BALANCE | \$ 356,400 | \$ 822,585 | \$ 466,185 |
| FUND BALANCE - JULY 1, 2018 | 1,128,908 | 1,128,908 | |
| FUND BALANCE - JUNE 30, 2019 | \$ 1,485,308 | \$ 1,951,493 | \$ 466,185 |

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

SAN LEON MUNICIPAL UTILITY DISTRICT
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
JUNE 30, 2019

THIS PAGE INTENTIONALLY LEFT BLANK

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

| | | | | | |
|---------------|--|---------------|----------------------|---------------|------------|
| <u> X </u> | Retail Water | <u> </u> | Wholesale Water | <u> </u> | Drainage |
| <u> X </u> | Retail Sewer | <u> </u> | Wholesale Wastewater | <u> </u> | Irrigation |
| <u> </u> | Parks/Recreation | <u> X </u> | Fire Protection | <u> </u> | Security |
| <u> X </u> | Solid Waste/Garbage | <u> </u> | Flood Control | <u> </u> | Roads |
| <u> </u> | Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | | |
| <u> X </u> | Other (specify): <u>Street Lights</u> | | | | |

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective September 18, 2018.

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Use</u> | <u>Usage Levels</u> |
|-------------|-----------------------|----------------------|----------------------|--|---------------------|
| WATER: | \$ 20.00 | 2,000 | N | \$ 5.50 | 2,001 to 4,000 |
| | | | | \$ 5.75 | 4,001 to 7,000 |
| | | | | \$ 6.00 | 7,001 to 10,000 |
| | | | | \$ 6.25 | 10,001 to 24,000 |
| | | | | \$ 6.50 | 24,001 to 44,000 |
| | | | | \$ 6.75 | 44,001 to 75,000 |
| | | | | \$ 7.00 | 75,001 and up |
| WASTEWATER: | \$ 20.00 | 2,000 | N | \$ 4.50 | 2,001 to 4,000 |
| | | | | \$ 4.75 | 4,001 to 7,000 |
| | | | | \$ 5.00 | 7,001 to 10,000 |
| | | | | \$ 5.25 | 10,001 and up |

SURCHARGE:

| | |
|------------------------|------------------------------|
| Commission | |
| Regulatory Assessments | 0.5% of water and sewer bill |
| Street Lights | \$ 3.95 |
| VFD | \$ 8.00 |
| Garbage | \$ 19.00 |

District employs winter averaging for wastewater usage? X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$66.25 Wastewater: \$58.25 Surcharge: \$31.57

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFCs</u> |
|------------------------------|------------------------------|-------------------------------|------------------------|-------------------------|
| Unmetered | <u>270</u> | <u> </u> | x 1.0 | <u> </u> |
| ≤¾" | <u>3,454</u> | <u>2,756</u> | x 1.0 | <u>2,756</u> |
| 1" | <u>110</u> | <u>99</u> | x 2.5 | <u>248</u> |
| 1½" | <u> </u> | <u> </u> | x 5.0 | <u> </u> |
| 2" | <u>36</u> | <u>34</u> | x 8.0 | <u>272</u> |
| 3" | <u> </u> | <u> </u> | x 15.0 | <u> </u> |
| 4" | <u>4</u> | <u>4</u> | x 25.0 | <u>100</u> |
| 6" | <u> </u> | <u> </u> | x 50.0 | <u> </u> |
| 8" | <u> </u> | <u> </u> | x 80.0 | <u> </u> |
| 10" | <u> </u> | <u> </u> | x 115.0 | <u> </u> |
| Total Water Connections | <u><u>3,874</u></u> | <u><u>2,893</u></u> | | <u><u>3,376</u></u> |
| Total Wastewater Connections | <u><u>3,874</u></u> | <u><u>2,848</u></u> | x 1.0 | <u><u>2,848</u></u> |

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited):

| | | |
|------------------------------|-------------|--|
| Gallons billed to customers: | 156,147,000 | Water Accountability Ratio: 72.4 % (Gallons billed/Gallons purchased) |
| Gallons purchased: | 215,662,000 | From: <u>Gulf Coast Water Authority</u> |

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2019**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ___ No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Galveston County, Texas

Is the District located within a city is extraterritorial jurisdiction (ETJ)?

Entirely X Partly _____ Not at all _____

ETJ in which district is located:

City of Texas City, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2019

| | |
|---|---------------------|
| PERSONNEL EXPENDITURES (Including Benefits) | |
| Salaries | \$ 667,725 |
| Payroll Taxes | 50,703 |
| Pension | 17,100 |
| Payroll Service | 2,724 |
| Insurance | <u>191,717</u> |
| TOTAL PERSONNEL EXPENDITURES | <u>\$ 929,969</u> |
| PROFESSIONAL FEES: | |
| Auditing | \$ 20,750 |
| Engineering | 95,814 |
| Legal | 23,312 |
| Financial Advisor | <u>2,500</u> |
| TOTAL PROFESSIONAL FEES | <u>\$ 142,376</u> |
| PURCHASED WATER SERVICE | <u>\$ 514,338</u> |
| CONTRACTED SERVICES: | |
| Tax Collection and Appraisal District | <u>\$ 12,999</u> |
| UTILITIES: | |
| Electricity | \$ 98,399 |
| Telephone | <u>18,163</u> |
| TOTAL UTILITIES | <u>\$ 116,562</u> |
| REPAIRS AND MAINTENANCE | <u>\$ 1,253,521</u> |
| ADMINISTRATIVE EXPENDITURES: | |
| Computer/Internet | \$ 37,818 |
| Director Fees | 9,300 |
| Dues | 1,385 |
| Insurance | 76,945 |
| Office Supplies and Postage | 44,608 |
| Rents and Leases | 14,384 |
| Payroll Taxes | 2,990 |
| Election Costs | 13,054 |
| Training | 8,506 |
| Travel and Meetings | 4,183 |
| Other | <u>22,997</u> |
| TOTAL ADMINISTRATIVE EXPENDITURES | <u>\$ 236,170</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2019

| | | |
|---------------------------------|--|-----------------------------------|
| SOLID WASTE DISPOSAL | | \$ <u>599,962</u> |
| SECURITY | | \$ <u>4,330</u> |
| FIRE FIGHTING | | \$ <u>263,976</u> |
| STREET LIGHTING | | \$ <u>73,372</u> |
| OTHER EXPENDITURES: | | |
| Auto and Vehicle Expenditures | | \$ 3,945 |
| Bad Debt Expense | | 130,000 |
| Chemicals | | 23,944 |
| Fuel | | 9,773 |
| Laboratory Fees | | 20,073 |
| Permit Fees | | 13,875 |
| Regulatory Assessment | | 10,559 |
| Sludge Hauling | | 151,695 |
| Small Tools and Equipment | | 50,781 |
| Uniforms | | 9,484 |
| Other | | <u>7,757</u> |
| TOTAL OTHER EXPENDITURES | | \$ <u>431,886</u> |
| DEBT SERVICE: | | |
| Note Principal | | \$ 29,478 |
| Note Interest | | <u>553</u> |
| TOTAL DEBT SERVICE | | \$ <u>30,031</u> |
| TOTAL EXPENDITURES | | \$ <u><u>4,609,492</u></u> |

Number of persons employed by the District 14 Full-Time 0 Part-Time

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
INVESTMENTS
JUNE 30, 2019

| Fund | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|------------------------------|---|------------------|------------------|---------------------------|---|
| <u>GENERAL FUND</u> | | | | | |
| TexPool | XXXX0003 | Varies | Daily | \$ 1,118,778 | \$ |
| TexPool | XXXX0004 | Varies | Daily | 225,307 | |
| Certificate of Deposit | XXXX0007 | 0.85% | 05/23/20 | 212,827 | |
| TOTAL GENERAL FUND | | | | <u>\$ 1,556,912</u> | <u>\$ - 0 -</u> |
| <u>DEBT SERVICE FUND</u> | | | | | |
| TexPool | XXXX0006 | Varies | Daily | \$ 1,075,891 | \$ |
| TexSTAR | XXXX6790 | Varies | Daily | 255,222 | |
| TOTAL DEBT SERVICE FUND | | | | <u>\$ 1,331,113</u> | <u>\$ - 0 -</u> |
| <u>CAPITAL PROJECTS FUND</u> | | | | | |
| TexSTAR | XXXX0170 | Varies | Daily | \$ 805,419 | \$ - 0 - |
| TOTAL - ALL FUNDS | | | | <u>\$ 3,693,444</u> | <u>\$ - 0 -</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2019

| | Maintenance Taxes | | Debt Service Taxes | |
|-----------------------------|-------------------|----------------|--------------------|----------------|
| TAXES RECEIVABLE - | | | | |
| JULY 1, 2018 | \$ | 107,615 | \$ | 126,453 |
| Adjustments to Beginning | | | | |
| Balance | | <u>(1,228)</u> | \$ | <u>(1,591)</u> |
| | | \$ | 106,387 | \$ |
| | | | | 124,862 |
| Original 2018 Tax Levy | \$ | 925,210 | \$ | 616,807 |
| Adjustment to 2018 Tax Levy | | <u>43,968</u> | <u>969,178</u> | <u>29,312</u> |
| TOTAL TO BE | | | | |
| ACCOUNTED FOR | | \$ | 1,075,565 | \$ |
| | | | | 770,981 |
| TAX COLLECTIONS: | | | | |
| Prior Years | \$ | 41,754 | \$ | 55,610 |
| Current Year | | <u>895,080</u> | <u>936,834</u> | <u>596,720</u> |
| | | | | <u>652,330</u> |
| TAXES RECEIVABLE - | | | | |
| JUNE 30, 2019 | | <u>\$</u> | <u>138,731</u> | <u>\$</u> |
| | | | | <u>118,651</u> |
| TAXES RECEIVABLE BY | | | | |
| YEAR: | | | | |
| 2018 | \$ | 74,098 | \$ | 49,399 |
| 2017 | | 17,495 | | 23,554 |
| 2016 | | 7,828 | | 9,429 |
| 2015 | | 4,975 | | 6,947 |
| 2014 | | 2,820 | | 5,640 |
| 2013 | | 2,392 | | 4,785 |
| 2012 | | 4,244 | | 2,122 |
| 2011 | | 3,646 | | 1,823 |
| 2010 | | 3,428 | | 1,714 |
| 2009 | | 3,088 | | 1,544 |
| 2008 | | 2,489 | | 1,244 |
| 2007 | | 1,775 | | 887 |
| 2006 | | 1,844 | | 1,209 |
| 2005 and Prior | | <u>8,609</u> | | <u>8,354</u> |
| TOTAL | | <u>\$</u> | <u>138,731</u> | <u>\$</u> |
| | | | | <u>118,651</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2019

| | 2018 | 2017 | 2016 | 2015 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| PROPERTY VALUATIONS: | | | | |
| Land | \$ 135,855,042 | \$ 117,759,355 | \$ 84,601,856 | \$ 84,231,854 |
| Improvements | 300,359,958 | 267,754,377 | 225,104,245 | 204,987,185 |
| Personal Property | 8,830,938 | 8,552,844 | 9,001,318 | 9,601,467 |
| Exemptions | (86,438,726) | (92,369,056) | (50,453,116) | (45,715,500) |
| TOTAL PROPERTY VALUATIONS | \$ 358,607,212 | \$ 301,697,520 | \$ 268,254,303 | \$ 253,105,006 |
| TAX RATES PER \$100 VALUATION: | | | | |
| Debt Service | \$ 0.1800 | \$ 0.2582 | \$ 0.2459 | \$ 0.2622 |
| Maintenance | 0.2700 | 0.1918 | 0.2041 | 0.1878 |
| TOTAL TAX RATES PER \$100 VALUATION | \$ 0.4500 | \$ 0.4500 | \$ 0.4500 | \$ 0.4500 |
| ADJUSTED TAX LEVY* | \$ 1,615,297 | \$ 1,530,523 | \$ 1,207,959 | \$ 1,140,276 |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | 92.35 % | 97.32 % | 98.57 % | 98.95 % |

* Based upon the adjusted tax levy at the time of audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.30 per \$100 of assessed valuation approved by voters on August 14, 1999.

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

REFUNDING SERIES - 2012

| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 225,000 | \$ 56,525 | \$ 281,525 |
| 2021 | 240,000 | 48,620 | 288,620 |
| 2022 | 245,000 | 40,375 | 285,375 |
| 2023 | 255,000 | 31,875 | 286,875 |
| 2024 | 265,000 | 23,035 | 288,035 |
| 2025 | 275,000 | 13,855 | 288,855 |
| 2026 | 270,000 | 4,590 | 274,590 |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| | <u>\$ 1,775,000</u> | <u>\$ 218,875</u> | <u>\$ 1,993,875</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

S E R I E S - 2 0 1 3

| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
|--|---------------------------------|---|---------------------|
| 2020 | \$ 170,000 | \$ 207,206 | \$ 377,206 |
| 2021 | 170,000 | 199,981 | 369,981 |
| 2022 | 180,000 | 193,669 | 373,669 |
| 2023 | 190,000 | 188,119 | 378,119 |
| 2024 | 195,000 | 182,344 | 377,344 |
| 2025 | 205,000 | 176,344 | 381,344 |
| 2026 | 230,000 | 169,819 | 399,819 |
| 2027 | 525,000 | 158,494 | 683,494 |
| 2028 | 550,000 | 142,025 | 692,025 |
| 2029 | 580,000 | 124,369 | 704,369 |
| 2030 | 610,000 | 105,394 | 715,394 |
| 2031 | 640,000 | 84,681 | 724,681 |
| 2032 | 675,000 | 62,491 | 737,491 |
| 2033 | 710,000 | 38,675 | 748,675 |
| 2034 | 750,000 | 13,125 | 763,125 |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| | <u>\$ 6,380,000</u> | <u>\$ 2,046,736</u> | <u>\$ 8,426,736</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

| S E R I E S - 2 0 1 7 | | | | |
|--|---------------------------------|---|-------|-----------|
| Due During Fiscal Years Ending June 30 | Principal Due September 1 | Interest Due September 1/ March 1 | Total | |
| 2020 | \$ 95,000 | \$ 85,031 | \$ | 180,031 |
| 2021 | 100,000 | 82,106 | | 182,106 |
| 2022 | 105,000 | 79,031 | | 184,031 |
| 2023 | 110,000 | 75,806 | | 185,806 |
| 2024 | 115,000 | 72,431 | | 187,431 |
| 2025 | 120,000 | 68,906 | | 188,906 |
| 2026 | 125,000 | 65,700 | | 190,700 |
| 2027 | 135,000 | 62,691 | | 197,691 |
| 2028 | 140,000 | 59,338 | | 199,338 |
| 2029 | 145,000 | 55,413 | | 200,413 |
| 2030 | 155,000 | 50,913 | | 205,913 |
| 2031 | 165,000 | 46,113 | | 211,113 |
| 2032 | 170,000 | 41,088 | | 211,088 |
| 2033 | 180,000 | 35,838 | | 215,838 |
| 2034 | 190,000 | 30,288 | | 220,288 |
| 2035 | 200,000 | 24,313 | | 224,313 |
| 2036 | 210,000 | 17,907 | | 227,907 |
| 2037 | 220,000 | 11,051 | | 231,051 |
| 2038 | 230,000 | 3,738 | | 233,738 |
| | \$ 2,910,000 | \$ 967,702 | \$ | 3,877,702 |

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

SAN LEON MUNICIPAL UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2019

ANNUAL REQUIREMENTS
FOR ALL SERIES

| Due During Fiscal Years Ending June 30 | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
|--|------------------------|-----------------------|--|
| 2020 | \$ 490,000 | \$ 348,762 | \$ 838,762 |
| 2021 | 510,000 | 330,707 | 840,707 |
| 2022 | 530,000 | 313,075 | 843,075 |
| 2023 | 555,000 | 295,800 | 850,800 |
| 2024 | 575,000 | 277,810 | 852,810 |
| 2025 | 600,000 | 259,105 | 859,105 |
| 2026 | 625,000 | 240,109 | 865,109 |
| 2027 | 660,000 | 221,185 | 881,185 |
| 2028 | 690,000 | 201,363 | 891,363 |
| 2029 | 725,000 | 179,782 | 904,782 |
| 2030 | 765,000 | 156,307 | 921,307 |
| 2031 | 805,000 | 130,794 | 935,794 |
| 2032 | 845,000 | 103,579 | 948,579 |
| 2033 | 890,000 | 74,513 | 964,513 |
| 2034 | 940,000 | 43,413 | 983,413 |
| 2035 | 200,000 | 24,313 | 224,313 |
| 2036 | 210,000 | 17,907 | 227,907 |
| 2037 | 220,000 | 11,051 | 231,051 |
| 2038 | 230,000 | 3,738 | 233,738 |
| | <u>\$ 11,065,000</u> | <u>\$ 3,233,313</u> | <u>\$ 14,298,313</u> |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2019

| Description | Original Bonds Issued | Bonds Outstanding July 1, 2018 |
|--|--------------------------|--------------------------------------|
| San Leon Municipal Utility District Unlimited Tax Refunding Bonds - Series 2012 | \$ 3,055,000 | \$ 1,995,000 |
| San Leon Municipal Utility District Unlimited Tax Bonds - Series 2013 | 7,000,000 | 6,535,000 |
| San Leon Municipal Utility District Unlimited Tax Bonds - Series 2017 | <u>3,000,000</u> | <u>3,000,000</u> |
| TOTAL | <u>\$ 13,055,000</u> | <u>\$ 11,530,000</u> |
| Bond Authority: | <u>Tax Bonds</u> | |
| Amount Authorized by Voters | \$ 61,500,000 | |
| Amount Issued | <u>16,660,000</u> | |
| Remaining to be Issued | <u>\$ 44,840,000</u> | |

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

| <u>Current Year Transactions</u> | | | | |
|----------------------------------|--------------------|-------------------|--|--|
| <u>Bonds Sold</u> | <u>Retirements</u> | | <u>Bonds Outstanding June 30, 2019</u> | <u>Paying Agent</u> |
| | <u>Principal</u> | <u>Interest</u> | | |
| \$ | \$ 220,000 | \$ 64,090 | \$ 1,775,000 | Branch Banking and Trust Company Charlotte, NC |
| | 155,000 | 214,113 | 6,380,000 | Amegy Bank National Association Houston, Texas |
| | 90,000 | 87,806 | 2,910,000 | Amegy Bank National Association Houston, Texas |
| <u>\$ - 0 -</u> | <u>\$ 465,000</u> | <u>\$ 366,009</u> | <u>\$ 11,065,000</u> | |

Debt Service Fund cash, investments and cash with tax office
balances as of June 30, 2019:

\$ 1,454,815

Average annual debt service payment (principal and interest) for remaining term
of all debt:

\$ 752,543

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 936,834 | \$ 628,487 | \$ 550,579 |
| Water Service | 1,352,900 | 1,173,498 | 1,115,885 |
| Wastewater Service | 1,029,799 | 920,195 | 895,413 |
| Street Lighting | 124,587 | 127,059 | 126,999 |
| Fire Fighting Service | 264,318 | 273,152 | 273,616 |
| Solid Waste Service | 561,140 | 572,346 | 284,769 |
| Penalty and Interest | 34,444 | 33,242 | 35,419 |
| Tap Connection and Inspection Fees | 268,685 | 141,295 | 242,080 |
| Miscellaneous Revenues and FEMA Reimbursements | 127,887 | 149,406 | 164,026 |
| TOTAL REVENUES | \$ 4,700,594 | \$ 4,018,680 | \$ 3,688,786 |
| EXPENDITURES | | | |
| Personnel | \$ 929,969 | \$ 875,399 | \$ 910,236 |
| Professional Fees | 142,376 | 151,469 | 317,231 |
| Contracted Services | 881,267 | 875,615 | 595,865 |
| Purchased Water | 514,338 | 466,145 | 436,831 |
| Utilities | 116,562 | 126,693 | 121,567 |
| Repairs and Maintenance | 1,253,521 | 326,418 | 236,383 |
| Street Lighting | 73,372 | 73,743 | 71,871 |
| Other | 668,056 | 1,080,906 | 758,297 |
| Capital Outlay | | 787,160 | 301,782 |
| Debt Service: | | | |
| Note Principal | 29,478 | 38,388 | 38,100 |
| Note Interest | 553 | 1,978 | 3,401 |
| TOTAL EXPENDITURES | \$ 4,609,492 | \$ 4,803,914 | \$ 3,791,564 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ 91,102 | \$ (785,234) | \$ (102,778) |
| OTHER FINANCING SOURCES (USES) | | | |
| Note Proceeds | \$ | \$ | \$ 33,913 |
| Transfers In(Out) | 731,483 | 266,123 | 233,139 |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ 731,483 | \$ 266,123 | \$ 267,052 |
| NET CHANGE IN FUND BALANCE | \$ 822,585 | \$ (519,111) | \$ 164,274 |
| BEGINNING FUND BALANCE | 1,128,908 | 1,648,019 | 1,483,745 |
| ENDING FUND BALANCE | \$ 1,951,493 | \$ 1,128,908 | \$ 1,648,019 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|-----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 375,324 | \$ 346,452 | 20.0 % | 15.7 % | 14.9 % | 12.8 % | 12.3 % |
| 1,061,850 | 902,065 | 28.8 | 29.2 | 30.3 | 36.0 | 32.2 |
| 909,500 | 797,213 | 21.9 | 22.9 | 24.3 | 30.8 | 28.5 |
| 122,871 | 121,421 | 2.7 | 3.2 | 3.4 | 4.2 | 4.3 |
| 264,013 | 260,986 | 5.6 | 6.8 | 7.4 | 8.9 | 9.3 |
| | | 11.9 | 14.2 | 7.7 | | |
| 33,124 | 26,804 | 0.7 | 0.8 | 1.0 | 1.1 | 1.0 |
| 131,095 | 150,305 | 5.7 | 3.5 | 6.6 | 4.4 | 5.4 |
| 53,778 | 196,878 | 2.7 | 3.7 | 4.4 | 1.8 | 7.0 |
| <u>\$ 2,951,555</u> | <u>\$ 2,802,124</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 821,010 | \$ 802,330 | 19.8 % | 21.8 % | 24.7 % | 27.8 % | 28.6 % |
| 93,142 | 76,786 | 3.0 | 3.8 | 8.6 | 3.2 | 2.7 |
| 277,780 | 279,499 | 18.7 | 21.8 | 16.2 | 9.4 | 10.0 |
| 401,450 | 271,963 | 10.9 | 11.6 | 11.8 | 13.6 | 9.7 |
| 149,341 | 114,425 | 2.5 | 3.2 | 3.3 | 5.1 | 4.1 |
| 350,445 | 396,783 | 26.7 | 8.1 | 6.4 | 11.9 | 14.2 |
| 98,442 | 81,787 | 1.6 | 1.8 | 1.9 | 3.3 | 2.9 |
| 539,028 | 512,561 | 14.2 | 26.9 | 20.6 | 18.3 | 18.3 |
| 454,017 | 271,392 | | 19.6 | 8.2 | 15.4 | 9.7 |
| 15,934 | 10,983 | 0.6 | 1.0 | 1.0 | 0.5 | 0.4 |
| 1,348 | 1,131 | | | 0.1 | | |
| <u>\$ 3,201,937</u> | <u>\$ 2,819,640</u> | <u>98.0 %</u> | <u>119.6 %</u> | <u>102.8 %</u> | <u>108.5 %</u> | <u>100.6 %</u> |
| <u>\$ (250,382)</u> | <u>\$ (17,516)</u> | <u>2.0 %</u> | <u>(19.6) %</u> | <u>(2.8) %</u> | <u>(8.5) %</u> | <u>(0.6) %</u> |
| \$ 57,008 | \$ | | | | | |
| | 89,243 | | | | | |
| <u>\$ 57,008</u> | <u>\$ 89,243</u> | | | | | |
| \$ (193,374) | \$ 71,727 | | | | | |
| 1,677,119 | 1,605,392 | | | | | |
| <u>\$ 1,483,745</u> | <u>\$ 1,677,119</u> | | | | | |

See accompanying independent auditor's report.

SAN LEON MUNICIPAL UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

| | Amounts | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| REVENUES | | | |
| Property Taxes | \$ 652,330 | \$ 843,259 | \$ 667,937 |
| Penalty and Interest | 57,456 | 55,427 | 46,944 |
| Miscellaneous Revenues | 25,790 | 12,624 | 4,776 |
| TOTAL REVENUES | \$ 735,576 | \$ 911,310 | \$ 719,657 |
| EXPENDITURES | | | |
| Tax Collection Expenditures | \$ 18,268 | \$ 12,000 | \$ 14,185 |
| Debt Service Principal | 465,000 | 360,000 | 350,000 |
| Debt Service Interest and Fees | 366,724 | 321,908 | 305,517 |
| TOTAL EXPENDITURES | \$ 849,992 | \$ 693,908 | \$ 669,702 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | \$ (114,416) | \$ 217,402 | \$ 49,955 |
| OTHER FINANCING SOURCES (USES) | | | |
| Long-Term Debt Issued | \$ - 0 - | \$ 95,880 | \$ - 0 - |
| NET CHANGE IN FUND BALANCE | \$ (114,416) | \$ 313,282 | \$ 49,955 |
| BEGINNING FUND BALANCE | 1,761,561 | 1,448,279 | 1,398,324 |
| ENDING FUND BALANCE | \$ 1,647,145 | \$ 1,761,561 | \$ 1,448,279 |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | 2,893 | 2,783 | 2,719 |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | 2,848 | 2,725 | 2,661 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenues | | | | |
|---------------------|---------------------|------------------------------|----------------|----------------|----------------|----------------|
| 2016 | 2015 | 2019 | 2018 | 2017 | 2016 | 2015 |
| \$ 738,199 | \$ 673,126 | 88.7 % | 92.5 % | 92.8 % | 95.4 % | 94.2 % |
| 33,358 | 40,435 | 7.8 | 6.1 | 6.5 | 4.3 | 5.7 |
| 2,281 | 772 | 3.5 | 1.4 | 0.7 | 0.3 | 0.1 |
| <u>\$ 773,838</u> | <u>\$ 714,333</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> | <u>100.0 %</u> |
| \$ 10,905 | \$ 10,945 | 2.5 % | 1.3 % | 2.0 % | 1.4 % | 1.5 % |
| 335,000 | 320,000 | 63.2 | 39.5 | 48.6 | 43.3 | 44.8 |
| <u>318,097</u> | <u>330,982</u> | <u>49.9</u> | <u>35.3</u> | <u>42.5</u> | <u>41.1</u> | <u>46.3</u> |
| <u>\$ 664,002</u> | <u>\$ 661,927</u> | <u>115.6 %</u> | <u>76.1 %</u> | <u>93.1 %</u> | <u>85.8 %</u> | <u>92.6 %</u> |
| <u>\$ 109,836</u> | <u>\$ 52,406</u> | <u>(15.6) %</u> | <u>23.9 %</u> | <u>6.9 %</u> | <u>14.2 %</u> | <u>7.4 %</u> |
| <u>\$ - 0 -</u> | <u>\$ - 0 -</u> | | | | | |
| \$ 109,836 | \$ 52,406 | | | | | |
| <u>1,288,488</u> | <u>1,236,082</u> | | | | | |
| <u>\$ 1,398,324</u> | <u>\$ 1,288,488</u> | | | | | |
| <u>2,809</u> | <u>2,637</u> | | | | | |
| <u>2,795</u> | <u>2,536</u> | | | | | |

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2019**

District Mailing Address - San Leon Municipal Utility District
443 24th Street
San Leon, TX 77539

District's Telephone Number - (281) 339-1586

| Board Members | Term of Office (Elected or Appointed) | Fees of office for the year ended June 30, 2019 | Expense Reimbursements for the year ended June 30, 2019 | Title |
|----------------------|--|--|---|-------------------------------------|
| Joe Manchaca | 05/18 05/22 (Elected) | \$ -0- | \$ -0- | President |
| Tyson Kennedy | 05/18 05/22 (Elected) | \$ 1,800 | \$ -0- | Vice President |
| Keith Gossett | 09/18 05/20 (Appointed) | \$ 2,550 | \$ 288 | Secretary |
| Kenneth Bishop | 05/16 05/20 (Elected) | \$ 2,700 | \$ 232 | Treasurer/ Investment Officer |
| Kelly Neason | 05/18 05/22 (Elected) | \$ 1,950 | \$ -0- | Assistant Secretary |
| Julie Hall | 05/16 09/18 | \$ 300 | \$ -0- | Resigned |

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
February 2, 2019.

Limit on Fees of Office that a Director may receive during a fiscal year \$7,200 as set by Board Resolution (TWC Section 49.060) on August 13, 2005. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**SAN LEON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2019**

| | <u>Date Hired</u> | <u>Fees/ Compensation for the fiscal year ended June 30, 2019</u> | <u>Title</u> |
|--|-------------------|---|----------------------------|
| Key Administrative Personnel: | | | |
| Janice Hoffman | 07/23/95 | \$ 80,086 | Office Manager |
| Andrew Miller | 01/17/18 | \$ 78,166 | District Manager |
| Ken Keller | 04/96 | \$ 77,628 | Field Supervisor |
| Consultants: | | | |
| Reid, Strickland & Gillette | Prior to 1992 | \$ 23,312 | General Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 06/20/95 | \$ 20,750 | Auditor |
| Linebarger Goggan Blair and Sampson, LLP | 1992 | \$ 18,268 | Delinquent Tax Attorney |
| Costello, Inc. | 05/16/18 | \$ 334,297 | Engineer |
| AEI Engineering | 12/21/10 | \$ 10,931 | Prior Engineer |
| SAMCO Capital Markets | 06/22/03 | \$ 2,500 | Financial Advisor |
| Galveston County Tax Assessor | 9/2002 | \$ 2,479 | Tax Collector |

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

SAN LEON MUNICIPAL UTILITY DISTRICT
OTHER SUPPLEMENTARY INFORMATION

SAN LEON MUNICIPAL UTILITY DISTRICT
PRINCIPAL TAXPAYERS
JUNE 30, 2019
(UNAUDITED)

| <u>Taxpayer</u> | <u>Type of Property</u> | <u>Taxable Value by Tax Year</u> | |
|------------------------------|-------------------------------|----------------------------------|----------------------|
| | | <u>2018</u> | <u>2017</u> |
| Centerpoint Energy Houston | Utility | \$ 2,229,810 | (a) |
| Halili Hajrulla Trustee | Residence & Business | 1,716,900 | (a) |
| Halili, Hajrulla | Residence | 1,538,655 | 1,407,868 |
| Wiggins, Matthew Jr. | Residence | 1,524,990 | 2,502,710 |
| Jardina, Charles C. | Residence | 1,261,130 | 2,048,880 |
| Moore, Clifford A. & Pat M. | Residence | 1,142,487 | 1,126,176 |
| MP Apartments LLC | Multi-Family Apt. | 1,116,913 | 1,000,000 |
| Cassius Limited | Residence | 1,040,370 | 1,120,980 |
| Barrett, Stephen P. & Sheryl | Residence | 1,011,190 | 1,011,190 |
| Shahroodi, Shahrokh | Residence | 1,007,050 | (a) |
| | Total | <u>\$ 13,589,495</u> | <u>\$ 10,217,804</u> |
| | Percent of Assessed Valuation | <u>3.79 %</u> | <u>3.39 %</u> |

(a) not a top ten tax payer in respective year.

SAN LEON MUNICIPAL UTILITY DISTRICT
ASSESSED VALUE BY CLASSIFICATION
JUNE 30, 2019
(UNAUDITED)

Classification of Assessed Valuation (a)

| Type of Property | 2018 | | 2017 | |
|--|-----------------------|--------------|-----------------------|--------------|
| | Taxable Value | % | Taxable Value | % |
| Single Family Residence | \$ 281,076,954 | 78.39 | \$ 264,163,243 | 77.75 |
| Multi-Family Residence | 2,779,917 | 0.78 | 2,637,229 | 0.78 |
| Vacant Lots and Land Tracts | 38,417,009 | 10.71 | 38,836,066 | 11.43 |
| Qualified Open-Space Land | 6,759 | 0.00 | 7,358 | 0.00 |
| Rural Land, Non-Qualified Open Space | 3,048,390 | 0.85 | 3,112,258 | 0.92 |
| Commercial Real Property | 17,573,452 | 4.90 | 16,094,645 | 4.74 |
| Oil and Gas | | 0.00 | 8,286 | 0.01 |
| Gas Distribution System | 339,040 | 0.09 | 318,003 | 0.09 |
| Electric Company (Including Co-Op) | 2,229,810 | 0.62 | 2,178,280 | 0.64 |
| Telephone Company (Including Co-Op) | 436,775 | 0.12 | 454,355 | 0.13 |
| Pipeland Company | 14,822 | 0.00 | 12,147 | 0.00 |
| Commercial Personal Property | 4,726,120 | 1.32 | 5,097,651 | 1.50 |
| Industrial and Manufacturing Personal Property | 1,064,251 | 0.30 | 382,512 | 0.11 |
| Tangible Other Personal Mobile Home | 6,299,123 | 1.76 | 6,083,268 | 1.79 |
| Residential Inventory | 580,860 | 0.16 | 359,700 | 0.11 |
| Special Inventory Tax | 13,930 | 0.00 | 5,350 | 0.00 |
| Total Appraised Value | <u>\$ 358,607,212</u> | <u>100.0</u> | <u>\$ 339,750,351</u> | <u>100.0</u> |

(a) Reflects classification of assessed valuation as supplied by the Galveston Central Appraisal District ("GCAD") prior to adjustments and exemptions. Such value may differ from the original certified assessed valuation and any supplements or adjustments thereto, as supplied by GCAD.

SAN LEON MUNICIPAL UTILITY DISTRICT
ESTIMATED OVERLAPPING DEBT
JUNE 30, 2019
(UNAUDITED)

| <u>Taxing Body</u> | <u>Amount</u> | <u>As of</u> | <u>% of Overlapping Debt</u> | <u>Amount of Overlapping Debt</u> |
|-------------------------|----------------|---|--------------------------------------|---------------------------------------|
| Galveston County | \$ 247,913,720 | 7/31/2019 | 1.06 | \$ 2,627,885 |
| Dickinson ISD | 305,160,000 | 7/31/2019 | 8.52 | 25,999,632 |
| College of the Mainland | 104,430,000 | 7/31/2019 | 2.91 | <u>3,038,913</u> |
| | | Total Overlapping Debt: | | \$ 31,666,430 |
| San Leon MUD | | 6/30/2019 | | <u>\$ 11,065,000</u> |
| | | Total District and Overlapping Debt: | | <u>\$ 42,731,430</u> |
| | | Total Direct and Overlapping Debt % of A.V.: | | 10.98% |
| | | Total Direct and Overlapping Debt per Capita: | | \$ 4,674 |

| <u>Overlapping Entity</u> | <u>2018 Tax Rate Per \$100 A.V.</u> |
|---------------------------|---|
| Galveston County | \$ 0.529831 |
| Road and Flood | 0.002067 |
| Dickinson ISD | 1.520000 |
| College of the Mainland | 0.212755 |
| The District | <u>0.450000</u> |
| Total | <u>\$ 2.714653</u> |

APPENDIX B
Special Tax Counsel Opinion

(this page intentionally left blank)

October 16, 2019

San Leon Municipal Utility District
443 24th Street
San Leon, Texas 77539

We have served as special tax counsel to San Leon Municipal Utility District (the “Issuer”) in connection with its issuance of the Unlimited Tax Bonds, Series 2019 (the “Bonds”), in the principal amount of \$22,750,000. The Bonds mature, bear interest and may be transferred and exchanged as set out in the order adopted by the Issuer authorizing the Bonds (the “Bond Order”).

We have served as special tax counsel for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the federal income tax law and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

Based on our examination as described above and in reliance on the legal opinion of Baker Williams Matthiesen LLP and Reid, Strickland & Gillette, LLP, as Co-Bond Counsel, dated the date hereof, that the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Texas and are valid and legally binding obligations of the Issuer, we are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The opinion set forth in the first sentence of the immediately preceding paragraph is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted in the Bond Order and the Federal Tax Certificate executed by the Issuer on the date hereof, to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinion is based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

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

(this page intentionally left blank)

APPENDIX C
Specimen Municipal Bond Insurance Policy

(this page intentionally left blank)



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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

Financial Advisory Services
Provided By:

