

OFFICIAL STATEMENT DATED NOVEMBER 13, 2019

DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE DISTRICT TO THE EFFECT THAT INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS – QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS."

**Rating:**  
**S&P: "AA" (Stable Outlook)/Insured**  
**Moody's: "Baa1"/Uninsured**  
**Insurance: BAM**  
**See "MUNICIPAL BOND**  
**RATING AND INSURANCE"**

**NEW ISSUE – Book-Entry Only**

**\$4,235,000**  
**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
*(A Political Subdivision of the State of Texas Located in Travis County, Texas)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**Dated: December 19, 2019**

**Due: September 1, as shown on the inside cover page**

**Interest to accrue from the date of Initial Delivery (as defined below)**

The bonds described above (the "Bonds") are obligations solely of Kelly Lane Water Control and Improvement District No. 1 (the "District") and are not obligations of the State of Texas ("State"), Travis County, Texas (the "County"), the City of Pflugerville, Texas (the "City"), Pflugerville Independent School District or any entity other than the District.

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 all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**PAYMENT TERMS** . . . Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, N.A., Dallas, Texas, (the "Paying Agent" or the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the date of Initial Delivery and will be payable each March 1 and September 1, commencing March 1, 2020, until maturity or prior redemption. Interest on the Bonds accrues from the date of Initial Delivery and will be payable on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity as provided on the inside cover page.

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

**PURPOSE** . . . Proceeds of the Bonds will be used to currently refund a portion of the District's outstanding unlimited tax bonds as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") and pay the costs associated with the issuance of the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM" or the "Bond Insurer") (see "BOND INSURANCE").

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**CUSIP PREFIX: 488132**  
**MATURITY SCHEDULE**  
**SEE INSIDE COVER PAGE**

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**LEGALITY** . . . The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, 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 McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. See "LEGAL MATTERS."

**DELIVERY** . . . Delivery of the Bonds is expected through the facilities of DTC on December 19, 2019 ("Initial Delivery").

**SAMCO CAPITAL MARKETS, INC.**

## MATURITY SCHEDULE

9/1 Maturity	Principal Amount	Interest Rate	Initial Yield <sup>(a)</sup>	CUSIP Numbers <sup>(b)</sup>
2020	\$ 60,000	3.000%	1.520%	488132FZ9
***	***	***	***	***
2023	285,000	3.000%	1.760%	488132GC9
2024	290,000	3.000%	1.860%	488132GD7
2025	300,000	4.000%	2.000%	488132GE5
2026	310,000	4.000%	2.100%	488132GF2
2027	320,000	4.000%	2.210%	488132GG0
2028	335,000	4.000%	2.320%	488132GH8
2029	350,000	3.000%	2.450% <sup>(c)</sup>	488132GJ4
2030	365,000	3.000%	2.560% <sup>(c)</sup>	488132GK1
2031	370,000	3.000%	2.610% <sup>(c)</sup>	488132GL9
2032	385,000	3.000%	2.690% <sup>(c)</sup>	488132GM7
2033	390,000	3.000%	2.760% <sup>(c)</sup>	488132GN5
2034	255,000	3.000%	2.860% <sup>(c)</sup>	488132GP0

**\$220,000 3.000% Term Bonds due September 1, 2036 Priced to Yield 2.950%<sup>(a)(c)</sup> – 488132GR6<sup>(b)</sup>**

**(Interest to accrue from the date of Initial Delivery)**

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions, including but not limited to, a refunding in whole or in part of such maturity, 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. None of the District, the Financial Advisor, or the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 1, 2028, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**REDEMPTION PROVISIONS . . .** The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2029 in whole or from time to time in part, on September 1, 2028, or 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. See “THE BONDS – Redemption.” Additionally, the Term Bond maturing September 1, 2036 is subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and “APPENDIX C – Specimen Municipal Bond Insurance Policy.”

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

The Official Statement shall constitute a “FINAL OFFICIAL STATEMENT” of the District with respect to the Bonds, as that term is defined in the Rule.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the District 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. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described.

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

NONE OF THE DISTRICT, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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The cover and inside cover pages hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## SALE AND DISTRIBUTION OF THE BONDS

**UNDERWRITING . . .** The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriter's discount of \$36,503.65. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

**PRICES AND MARKETABILITY . . .** The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter 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 Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter 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 Underwriter 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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification 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 RATING AND INSURANCE

The Bonds are expected to be rated "AA"/Stable by S&P Global Ratings ("S&P") by virtue of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Bond Insurer") at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District is rated "Baa1" by Moody's without regard to credit enhancement. See "BOND INSURANCE" and "BOND INSURANCE RISKS."

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## 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**..... Kelly Lane Water Control and Improvement District No. 1 (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective May 26, 2005 and confirmed pursuant to an election held within the District on May 13, 2006. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater as well as providing and operating park and recreational facilities, and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”
- LOCATION**..... The District, which encompasses approximately 328 acres of land, is located in northeast Travis County and lies approximately five miles northeast of downtown of the City of Pflugerville, Texas (“Pflugerville”). The District is located approximately one mile east of FM 685, is bounded on the south by Kelly Lane and on the east by Weiss Lane. The District is contained entirely within the extraterritorial jurisdiction of Pflugerville and within the boundaries of Pflugerville Independent School District, and lies approximately 15 miles northeast of the Austin central business district. See “THE DISTRICT – Location.”
- THE DEVELOPER** ..... The developer currently active within the District is KM Avalon, Ltd. (“KM” or the “Developer”), a Texas limited partnership whose general partner is KM Avalon GP, Inc., a Texas corporation, of which Blake Magee is the president and Bill Kochwelp is the vice-president. See “THE DEVELOPER – Description of Developer” and “THE DISTRICT – Current Status of Development.”
- DEVELOPMENT WITHIN THE DISTRICT** ..... Of the approximately 328 acres within the District, approximately 295.85 acres are developable under current land development regulations. As of October 1, 2019, all such 295.85 acres (or 100% of the developable acreage within the District) have been developed with utility facilities as the single family residential subdivision of Avalon. As of October 1, 2019, the District is completely developed. As of October 1, 2019, the development in the District consisted of 777 developed and occupied single family homes, 12 homes under construction and no remaining developed vacant lots. Additional development includes a Pflugerville Independent School District school site on approximately 13.45 acres and parks and recreational facilities on approximately 1.98 acres. See “THE DISTRICT – Current Status of Development.”

### THE BONDS

- DESCRIPTION** ..... The Bonds in the aggregate principal amount of \$4,235,000 mature serially in varying amounts on September 1 in the years 2020, 2023 through and including 2034 and as a Term Bond maturing on September 1, 2036 in the principal amounts set forth on the inside cover page hereof. Interest accrues from the date of Initial Delivery as defined 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** ..... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2029 in whole or from time to time in part, on September 1, 2028, or 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. See “THE BONDS – Redemption.” Additionally,

the Term Bond maturing on September 1, 2036 is subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

<b>SOURCE OF PAYMENT</b> .....	Principal of 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 legally limited as to rate or amount. See “TAXING PROCEDURES.” <b>The Bonds are obligations solely of the District and are not obligations of Pflugerville; Pflugerville Independent School District; Travis County, Texas; the State of Texas; or any entity other than the District.</b> See “THE BONDS – Source of and Security for Payment.”
<b>PAYMENT RECORD</b> .....	The Bonds constitute the second installment of bonds issued by the District for refunding purposes. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds entitled “\$2,000,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2008,” “\$2,260,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2010,” “\$6,330,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Improvement and Refunding Bonds, Series 2013,” (representing refunding in the amount of \$4,330,000 and new money proceeds in the amount of \$2,000,000), “\$3,000,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2015,” “\$7,500,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2016” and “\$3,345,000 Unlimited Tax Bonds, Series 2017” (collectively, the “Outstanding Bonds”). See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued.”
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are the second series of refunding bonds issued out of an aggregate of \$35,935,000 principal amount of refunding bonds authorized by the District’s voters at an election held on May 13, 2006 (of which \$520,000 has been previously utilized). The Bonds are issued by the District pursuant to an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District and a pricing certificate to be executed by the pricing officer designated in the order (the order and pricing certificate are collectively referred to herein as the “Bond Order”), Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, 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. See “INVESTMENT CONSIDERATIONS – General” and “THE BONDS – Authority for Issuance” and “THE BONDS – Issuance of Additional Debt.”
<b>USE OF PROCEEDS</b> .....	Proceeds of the Bonds together with other lawfully available funds of the District, if any, will be used to currently refund a portion of the District’s outstanding unlimited tax bonds as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) and pay the costs associated with the issuance of the Bonds.
<b>BONDS AUTHORIZED BUT UNISSUED</b> .....	At an election held within the District on May 13, 2006, the voters within the District approved the issuance of \$35,935,000 in refunding bonds. After issuance of the Bonds, the District will have \$35,380,000 remaining in authorized but unissued refunding bonds. Additionally, on May 13, 2006, the voters within the District approved the issuance of \$23,990,000 in bonds for water, wastewater and drainage facilities and \$3,690,000 in bonds for the acquisition and construction of parks and recreational facilities. The District has \$3,885,000 remaining in bonds for water, wastewater and drainage facilities. The District has not issued any park and recreational facilities bonds. See “FINANCIAL STATEMENT – Outstanding Bonds” and “THE BONDS – Future Debt.”
<b>MUNICIPAL BOND RATING AND INSURANCE</b> .....	The Bonds are expected to be rated “AA”/Stable by S&P Global Ratings (“S&P”) by virtue of a municipal bond insurance policy issued by Build America Mutual Assurance Company (“BAM” or the “Bond Insurer”) at the time of delivery of the Bonds. The Bonds and the outstanding debt of the District is rated “Baa1” by Moody’s without regard to credit enhancement. See “BOND INSURANCE” and “BOND INSURANCE RISKS.”

<b>QUALIFIED TAX-EXEMPT OBLIGATIONS.....</b>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2019 will not exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
<b>BOND COUNSEL .....</b>	McCall, Parkhurst & Horton L.L.P., Austin, Texas
<b>GENERAL COUNSEL.....</b>	Armbrust & Brown, PLLC, Austin, Texas
<b>FINANCIAL ADVISOR .....</b>	Specialized Public Finance Inc., Austin, Texas
<b>ENGINEER.....</b>	Jones-Heroy & Associates, Inc., Pflugerville, Texas

**INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds involve certain risk factors and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned “INVESTMENT CONSIDERATIONS,” with respect to investment in the Bonds.

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**SELECTED FINANCIAL INFORMATION**  
**(Unaudited as of September, 2019)**

2016 Certified Taxable Assessed Valuation .....	\$ 140,097,205	(a)
2017 Certified Taxable Assessed Valuation .....	\$ 166,734,291	(a)
2018 Certified Taxable Assessed Valuation .....	\$ 203,300,902	(a)
2019 Certified Taxable Assessed Valuation .....	\$ 235,956,498	(a)
Gross Direct Debt Outstanding .....	\$ 18,390,000	(b)
Estimated Overlapping Debt.....	<u>10,302,122</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt .....	\$ 28,692,122	
Ratios of Gross Direct Debt Outstanding to:		
2019 Certified Taxable Assessed Valuation .....		7.80%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation .....		12.16%
2019 Tax Rate:		
Debt Service.....	\$ 0.5000	
Maintenance & Operation.....	<u>0.2650</u>	
Total.....	\$ 0.7650	(d)
Debt Service Fund Balance as of September 9, 2019 .....	\$ 927,910	
General Operating Fund Balance as of September 9, 2019.....	\$ 1,753,930	
Capital Project Fund Balance as of September 9, 2019 .....	\$ 290,763	
Average Annual Debt Service Requirement (2020-2046) .....	\$ 1,009,331	(b)
Maximum Annual Debt Service Requirement (2033).....	\$ 1,225,944	(b)
Tax Rates Required to Pay Average Annual Debt Service (2020-2046) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation.....	\$ 0.4503	(b)
Tax Rates Required to Pay Maximum Annual Debt Service (2033) at a 95% Collection Rate		
Based upon 2019 Certified Taxable Assessed Valuation.....	\$ 0.5470	(b)
Number of Active Connections as of October 1, 2019:		
Single Family – Complete and Occupied.....	777	
Single Family – Complete and Unoccupied.....	0	
Single Family – Under Construction .....	12	
Total Vacant Lots .....	0	
Estimated Population as of October 1, 2019 .....	2,720	(e)

- (a) Assessed valuation of the District as certified by the Travis Central Appraisal District (“TCAD”). See “TAXING PROCEDURES.”
- (b) Includes the Bonds and excludes the Refunded Bonds. See “DEBT INFORMATION – Table 3 – Debt Service Schedule.”
- (c) See “DEBT INFORMATION – Estimated Overlapping Debt Statement.”
- (d) The District levied a 2019 total tax rate of \$0.7650. See “Table 9 – District Tax Rates.”
- (e) Based upon 3.5 residents per completed and occupied single family homes.

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**OFFICIAL STATEMENT**  
relating to the

**\$4,235,000**

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
*(A Political Subdivision of the State of Texas Located in Travis County, Texas)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the Kelly Lane Water Control and Improvement District No. 1 (the “District”), a political subdivision of the State of Texas (the “State”), of its “\$4,235,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds, Series 2019” (the “Bonds”).

The Bonds are issued by the District pursuant to an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District and a pricing certificate to be executed by the pricing officer designated in the order (the order and pricing certificate are collectively referred to herein as the “Bond Order”), the Constitution and general laws of the State of Texas (the “State”) including Chapters 49 and 51 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

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 District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District’s Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

**PLAN OF FINANCING**

**REFUNDED BONDS . . .** The principal of and interest due on the Refunded Bonds described in “SCHEDULE I” are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and BOKF, N.A., Dallas, Texas (the “Escrow Agent”). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the District, if any, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Escrow Fund, without regard to investment, to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance on the Sufficiency Certificate, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefor in the Escrow Agreement.

**PURPOSE . . .** Proceeds of the Bonds together with other lawfully available debt service funds, if any, will be used to currently refund a portion of the District’s outstanding unlimited tax bonds as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) and pay the costs associated with the issuance of the Bonds.

**SOURCES AND USES OF FUNDS . . .** The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 4,235,000.00
Reoffering Premium	<u>239,771.10</u>
Total Sources of Funds	\$ 4,474,771.10
Uses of Funds:	
Escrow Fund Deposit	\$ 4,250,174.83
Costs of Issuance (including bond insurance)	186,905.53
Underwriter’s Discount	36,503.65
Deposit to Interest and Sinking Fund	<u>1,187.09</u>
Total Uses of Funds	\$ 4,474,771.10

## THE BONDS

**GENERAL DESCRIPTION . . .** The Bonds are dated December 19, 2019 (“Initial Delivery”) 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 inside cover page hereof. Interest on the Bonds will accrue from the date of Initial Delivery, will be paid on March 1, 2020 and each September 1 and March 1 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 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 for the Bonds is BOKF, N.A., Dallas, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

**REDEMPTION . . .** The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2029, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2028, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

**MANDATORY SINKING FUND REDEMPTION . . .** The Bond maturing on September 1, 2036 (the “Term Bond”) are subject to mandatory sinking fund redemption prior to their stated maturity in the following amounts, on the following dates and at a price of par to the date of redemption by lot:

<u>Term Bond Due September 1, 2036</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2035	\$ 110,000
September 1, 2036*	110,000

\*Stated Maturity.

The principal amount of the Term Bond 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 Term Bond 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 Term Bond 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 Term Bond 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 . . .* At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

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.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**DTC REDEMPTION PROVISION . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system (“Book-Entry-Only-System”) is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order

or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants.

Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

**TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** The District is initially utilizing the Book-Entry-Only System of 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 Dallas, 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 registered owner at the risk and expense of the 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, 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 of 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 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 fifteenth (15th) (whether or not a business day) 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.

**AUTHORITY FOR ISSUANCE . . .** At an election held within the District on May 13, 2006, the voters within the District approved the issuance of \$35,935,000 in refunding bonds. After issuance of the Bonds, the District will have \$35,380,000 remaining in authorized but unissued refunding bonds. Additionally, on May 13, 2006, the voters within the District approved the issuance of \$23,990,000 in bonds for water, wastewater and drainage facilities and \$3,690,000 in bonds for the acquisition and construction of parks and recreational facilities. The District has \$3,885,000 remaining in bonds for water, wastewater and drainage facilities. The District has not issued any park and recreational facilities bonds. The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 51 of the Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, and Article XVI, Section 59 of the Texas Constitution.

**SOURCE OF AND SECURITY FOR PAYMENT . . .** The Bonds will be payable from and secured by a pledge of the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if the City of Pflugerville, Texas ("Pflugerville") dissolves the District and assumes all debts and liabilities of the District. If the District is abolished, Pflugerville must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of dissolution or the ability of Pflugerville to make debt service payments on the Bonds should dissolution occur. See "Annexation" below.

The Bonds are obligations solely of the District and are not obligations of Pflugerville; Pflugerville Independent School District ("Pflugerville ISD"); Travis County, Texas; the State of Texas; or any political subdivision or entity other than the District.

**PAYMENT RECORD . . .** The District has previously issued six series of bonds entitled "\$2,000,000 Unlimited Tax Bonds, Series 2008," "\$2,260,000 Unlimited Tax Bonds, Series 2010," "\$6,330,000 Unlimited Tax Improvement and Refunding Bonds, Series 2013," "\$3,000,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2015," "7,500,000 Kelly Lane Water Control and Improvement District No. 1 Unlimited Tax Bonds, Series 2016" and "\$3,345,000 Unlimited Tax Bonds, Series 2017" (the "Outstanding Bonds"). The District has not defaulted in the payment of the principal of or interest on the Outstanding Bonds.

**FLOW OF FUNDS . . .** The Bond Order creates the establishment and maintenance by the District of a Debt Service Fund and an Escrow Fund. Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds. Any cash balance in any fund must 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, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

*Debt Service Fund . . .* The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest, if any, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

*Escrow Fund . . .* The Refunded Bonds and the interest thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See "PLAN OF FINANCING."

**DEFEASANCE OF OUTSTANDING BONDS . . . General . . .** The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

*Retention of Rights . . .* To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

*Investments . . .* Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

**PAYING AGENT/REGISTRAR . . .** Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A. having an office for payment in Dallas, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each registered owner by first-class mail, postage prepaid.

**RECORD DATE . . .** The Record Date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the fifteenth (15th) calendar day of the month (whether or not a business day) preceding such interest payment date.

**ISSUANCE OF ADDITIONAL DEBT . . .** The District has \$3,885,000 remaining in bonds for water, wastewater and drainage facilities. The District has not issued any park and recreational facilities bonds. According to the District's engineer, the Developer (defined herein) has been fully reimbursed for the water, wastewater and drainage facilities within the District. Voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

**LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a water control and improvement 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.” Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a water control and improvement district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “MUNICIPAL BOND RATING AND INSURANCE.”

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.

**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 manner in which the proceeds of the Bonds are to be invested. The District may omit 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 non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

**ADDITIONAL COVENANTS . . .** The District has additionally covenanted in the Bond Order that it will 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.

**REMEDIES IN EVENT OF DEFAULT . . .** The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order and Chapter 51 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bond or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**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 water system with the water system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water system with any other district.

**ANNEXATION . . .** The District is contained entirely within the extraterritorial jurisdiction of Pflugerville. The Texas Legislature enacted significant changes to annexation laws by passing Senate Bill 6 during the 85th Texas Legislature First Special Session and House Bill 347 during the 86th Texas Legislature Regular Session (the “Annexation Laws”). Pursuant to changes in general law made by these bills, the City may annex the District only if (i) such annexation has been approved by a majority of those voting

in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the creation. Changes implemented by the Annexation Laws could interfere with future efforts of the City to annex land within the District. If a municipal utility district is annexed, the annexing municipality must assume the assets, functions, and obligations of the district, including outstanding bonds, and the pledge of taxes will terminate. Annexation of territory by Pflugerville is a policy-making matter within the discretion of the Mayor and City Council of Pflugerville and therefore, the District makes no representation that Pflugerville will ever annex the District and assume its debt.

Pursuant to the Comprehensive Development Agreement between KM Kelly Lane, Ltd. and Pflugerville effective August 30, 2004 (the "Comprehensive Development Agreement"), Pflugerville agreed to not annex the District prior to the earlier of: (i) 20 years after the date the District is created; or (ii) such time as the District bonds needed to fund all of the water, wastewater and drainage facilities required to serve the District as authorized under the Comprehensive Development Agreement have been issued and 90% of the facilities within the District for which District bonds were issued have been constructed.

**ALTERATION OF BOUNDARIES . . .** In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change 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.

**AMENDMENTS TO THE BOND ORDER . . .** The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

## **BOND INSURANCE**

**BOND INSURANCE POLICY . . .** Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM" or "Bond Insurer") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX C 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.

**BUILD AMERICA MUTUAL ASSURANCE COMPANY . . .** BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including

withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

**CAPITALIZATION OF BAM** . . . BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$552.8 million, \$130.8 million and \$422.1 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE."

**ADDITIONAL INFORMATION AVAILABLE FROM BAM** . . . Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## **BOND INSURANCE RISKS**

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

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable Bond documents. In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the



moneys received by the Paying Agent/Registrar pursuant to the Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

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

Neither the District nor the Underwriter has made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of any insurer, particularly over the life of the investment.

**CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . .** S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, Moody's Investor Services, Inc., and Fitch Ratings (the "Rating Agencies") have downgraded the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, certain events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including the Bond Insurer of the Bonds.

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

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) 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 (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity 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 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 an S&P Global Ratings 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](http://www.dtcc.com).

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

## **INVESTMENT CONSIDERATIONS**

**GENERAL . . .** The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; Pflugerville; Pflugerville Independent School District, or any other political subdivision other than the District, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See "THE BONDS – Source of and Security for 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 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.

**FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . *Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:*** A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such properties is related to general economic conditions affecting the demand for and taxable value of residences. Demand for such properties can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers in which the District is located. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

***Competition . . .*** The demand for single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

***Impact on District Tax Rates:*** Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2019 Certified Assessed Valuation is \$235,956,498. After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,225,944 (2033) and the Average Annual Debt Service Requirement will be \$1,009,331 (2020-2046, inclusive). A tax rate of \$0.5470/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$1,225,944, and a tax rate of \$0.4503/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$1,009,331 based upon the 2019 Certified Taxable Assessed Valuation.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**TAX COLLECTIONS AND FORECLOSURE REMEDIES . . .** The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL STATEMENT – Estimated Overlapping Debt Statement"), by the current aggregate tax rate being levied against the property, and by other factors (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy court could approve a confirmation plan which allows the debtor to make installment payments on delinquent taxes for up to six years and a bankruptcy court may reduce the amount of any taxes assessed against the debtor, including those that have already been paid.

**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 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 Federal 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 dismissed 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 specifically

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 Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission 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 making 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 Underwriter 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 "TAX MATTERS."

**FUTURE DEBT . . .** The District has reserved in the Bond Order the right to issue the remaining \$3,885,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$3,885,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ, although the District does not anticipate issuing the remaining voted bonds outstanding. See "THE SYSTEM." To date, the Developer has advanced a total of approximately \$15,624,036 to construct utility facilities to serve the property within the District. The Developer has been fully reimbursed for utility facilities within the District.

The District should not need to issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$3,885,000). Additionally, the District has reserved the right to issue the remaining \$3,690,000 authorized but unissued unlimited tax bonds for the acquisition and construction of parks and recreational facilities and such bonds may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt." See "Table 5 – Unlimited Tax Bonds Authorized but Unissued."

**ENVIRONMENTAL REGULATION . . .** Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring remedial action to prevent or mitigate pollution; and
- Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water control and improvement district or other type of district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future

compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to districts. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

***Air Quality Issues.*** The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted the "8-hour" ozone standard of 80 parts per billion ("ppb") (the "1997 Ozone Standard") to protect public health and welfare. In 2008, the EPA lowered the ozone standard to 75 ppb (the "2008 Ozone Standard"). The Austin area, consisting of Williamson, Hays, Travis, Bastrop and Caldwell Counties (the "Austin Area") was not designated "nonattainment" under the 2008 Ozone Standard.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the "2015 Ozone Standard"). On May 1, 2018, the EPA designated the Austin Area as "attainment" under the 2015 Ozone Standards, which became effective on August 3, 2018.

Should the Austin Area fail to achieve EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the near future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

***Water Supply & Discharge Issues.*** Water supply and discharge regulations that the District may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of "waters of the United States" and the extend of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final sixty (60) days after its publication in the Federal Register.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of “waters of the United States.” The proposed definition outlines six (6) categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for sixty (60) days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

Due to the pending rulemaking activity, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and has issued two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and has developed a stormwater management plan. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

**DROUGHT CONDITIONS . . .** Central Texas, like other areas of the State, has experienced drought conditions. The District receives its wholesale water supply from Manville Water Supply Corporation and has been allocated 322,700 gallons per day or 922 living unit equivalents of wholesale water supply to serve the District. While treated water services to the District are currently provided in amounts sufficient to service the residents of the District, if drought conditions continue or worsen, the available water supplies as well as water usage, District revenues, expenses and rates could be impacted.

**STORMWATER . . .** The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain. See “THE SYSTEM – 100-Year Flood Plain.”

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

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## THE DISTRICT

**GENERAL . . .** Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended, the District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and the operation of park and recreational facilities. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of water, wastewater, drainage, park and recreational facilities. The District may also 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, and is located entirely within the extraterritorial jurisdiction of Pflugerville. Fire services are provided to residents and property owners of the District by Travis County Emergency Services District No. 2.

**MANAGEMENT . . . Board of Directors.** The District is governed by its Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Tuesday after the first Monday in November in each even numbered year. All of the directors listed below reside or own property in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James L. Cotton	President	2020
Lisa Beard	Vice President	2022
Sandlin Niccum	Secretary	2022
Sarah Foxworth	Assistant Secretary	2022
Robert C. Laws	Assistant Secretary	2020

### Consultants:

**Tax Assessor/Collector . . .** Land and improvements in the District are being appraised by the Travis Central Appraisal District ("TCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, currently serves the District in this capacity under contract.

**Operator . . .** The District contracts with Pflugerville to serve as operator for the District.

**Bookkeeper . . .** Bott & Douthitt, P.L.L.C ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 60 other special districts.

**Engineer . . .** The District's consulting engineer is Jones-Heroy & Associates, Inc. (the "Engineer"). Such firm serves as consulting engineer to 18 other special districts.

**Auditor . . .** The District's financial statements for the fiscal year ended September 30, 2018 were prepared by McCall Gibson Swedlund Barfoot PLLC ("MGSB"), Certified Public Accountants. See "APPENDIX A – Excerpts from the Annual Financial Report" for a copy of the District's September 30, 2018 audited financial statements.

**Financial Advisor . . .** Specialized Public Finance 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 a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

**Bond Counsel . . .** McCall, Parkhurst & Horton L.L.P., Austin, Texas serves as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

**General Counsel . . .** Armbrust & Brown, PLLC ("A&B") serves as the District's general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

**LOCATION . . .** The District, which encompasses approximately 328 acres of land, is located in northeast Travis County and lies approximately five miles northeast of downtown Pflugerville. The District is located approximately one mile east of FM 685, is bounded on the south by Kelly Lane and on the east by Weiss Lane. The District lies entirely within the extraterritorial jurisdiction of Pflugerville and within the boundaries of Pflugerville ISD and is situated approximately 15 miles northeast of the Austin central business district. See "LOCATION MAP."

**CURRENT STATUS OF DEVELOPMENT . . .** Of the approximately 328 acres within the District, approximately 295.85 acres are developable under current land development regulations. As of October 1, 2019, all such 295.85 acres (or 100% of the developable acreage within the District) have been developed with utility facilities as the single family residential subdivision of Avalon. Additional development includes a Pflugerville ISD school site of approximately 13.45 acres, which is not subject to taxation by the District, and parks and recreational facilities on approximately 1.98 acres.

The chart below reflects the status of development as of October 1, 2019 and incorporates land used for detention purposes within developable acreage:

	Net Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
<b>A. Sections Developed with Utility Facilities</b>					
All Phases	280.42	789	777	12	0
Total Developed with Utility Facilities	280.42	789	777	12	0
Pflugerville ISD School Site	13.45				
Parks and Recreation	1.98	0	0	0	0
Total Other Acreage Developed with Utility Facilities	15.43				
<b>Total Developed</b>	295.85	789	777	12	0
<b>B. Remaining Developable Acreage</b>	0				
<b>Total Developable Acreage</b>	295.85				
<b>C. Undevelopable Acreage</b>	32.16				
<b>Total</b>	328.01				

**FUTURE DEVELOPMENT . . .** The District is completely developed. The initiation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, general and economic conditions which would affect any party’s ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption “INVESTMENT CONSIDERATIONS.” The Developer has been fully reimbursed for the existing utility facilities within the District. See “THE BONDS – Issuance of Additional Debt.” Accordingly, the District makes no representation that any future development will occur.

**ANNEXATION OF THE DISTRICT . . .** The District lies within the extraterritorial jurisdiction of Pflugerville. See “THE BONDS – Annexation” for a discussion of the ability of Pflugerville to annex the District.

**COMPREHENSIVE DEVELOPMENT AGREEMENT . . .** Pursuant to the Comprehensive Development Agreement between Pflugerville and KM Kelly Lane, Ltd., the predecessor in interest to the Developer, as amended, Pflugerville consented to the creation of the District along with Kelly Lane Water Control and Improvement District No. 2 (“Kelly Lane No. 2”). The Comprehensive Development Agreement governs the development, operation and annexation of and issuance of bonds by the District. Development within the District is subject to the subdivision code and other ordinances and regulations of Pflugerville that are applicable by virtue of the District being located within Pflugerville’s extraterritorial jurisdiction. Pursuant to the Comprehensive Development Agreement, the District is prohibited from providing water or wastewater service to any land within Pflugerville’s extraterritorial jurisdiction unless Pflugerville has approved a subdivision plat covering such tract of land. The Comprehensive Development Agreement is effective from the date of execution (August 30, 2004) for a period of 15 years and is automatically extended for another 15 year term at the end of the then-current term; provided the Comprehensive Development Agreement cannot be automatically extended more than two terms.

The Comprehensive Development Agreement authorizes the District to issue bonds and notes, including bond anticipation notes or refunding bonds for any purpose not specifically prohibited by law, the Comprehensive Development Agreement or rules and policies of the TCEQ. The total amount of bonds issued by the District and Kelly Lane No. 2 and the total reimbursement to the Developer cannot exceed \$43,000,000 reasonably adjusted for inflation. The term of any District bonds cannot exceed 25 years unless Pflugerville specifically approves a longer term for a particular bond issue.

The Comprehensive Development Agreement provides that Pflugerville will provide wholesale wastewater service to the land within the District and Kelly Lane No. 2 in accordance with the terms of the NPWIS Construction and Participation Agreement dated August 30, 2004, by and between KM Kelly Lane, Ltd. (predecessor to the Developer), Pflugerville, and Rowe Lane Development, Ltd., as amended (the “NPWIS Agreement”). Pursuant to the NPWIS Agreement, Pflugerville has agreed to provide at least 1,700 LUEs, but not more than 2,200 LUEs, of wastewater service to the land within the District and Kelly Lane No. 2. Under an Assignment of Wastewater Capacity and Rights, dated April 25, 2008, by and between the Developer, Kelly Lane No. 2, and the District, (i) the Developer assigned all of its rights under the Comprehensive Development Agreement and the NPWIS Agreement to receive wastewater service from Pflugerville for the land within the District and Kelly Lane No. 2; and (ii) the parties agreed that Kelly Lane No. 1 will be allocated at least 950 LUEs, but not more than 1,230 LUEs, of wastewater service and Kelly Lane No. 2 will be allocated not less than 750 LUEs, but not more than 970 LUEs, of wastewater service under the Comprehensive Development Agreement and the NPWIS Agreement.



## THE DEVELOPER

**GENERAL . . .** In general, the activities of a landowner or developer within a water control and improvement district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the water control and improvement district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within a water control and improvement district may have a profound effect on the security for the bonds issued by a district.

**DESCRIPTION OF DEVELOPER . . .** Development in the District is complete. The original developer within the District was KM Avalon, Ltd. ("KM" or the "Developer"), a Texas limited partnership whose general partner is KM Avalon GP, Inc., a Texas corporation, of which Blake Magee is the President and Bill Kochwelp is the Vice President.

**UTILITY DEVELOPMENT AGREEMENT . . .** The District has one utility construction agreement with the Developer. Such agreement governs the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. Under the agreement, the District consented to the assignment by Developer of certain reimbursement rights to Rowe Lane Development, Ltd.

**AGRICULTURAL WAIVER . . .** Much of the undeveloped acreage within the District is subject to an agricultural exemption, however, the Developer has executed an agreement, which is recorded in the real property records of Travis County, and are covenants running with the land, waiving the right to have the land located within the District classified as agricultural, open-space or timberland for purposes of District taxes. In addition, the Developer has waived the right to have the lots and houses (if any) in the District classified as business inventory for purposes of District taxes. The agreement may not be modified without the approval of the TCEQ and are binding on purchasers of such land from the Developer. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

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## THE SYSTEM

**REGULATION . . .** The water, wastewater and storm drainage facilities (the “System”), the purchase, acquisition and construction of which have been permanently financed by the District, 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, Travis County and Pflugerville. According to Jones-Heroy & Associates, Inc. (the “Engineer”), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District’s waterworks and wastewater facilities is subject to regulation by, among others, the U.S. Environmental Protection Agency and the TCEQ.

**WATER SUPPLY AND DISTRIBUTION . . .** The District receives its potable water from the Manville Water Supply Corporation (“MWSC”) pursuant to a 50-year wholesale water supply contract dated April 8, 2005 between KM Kelly Lane, Ltd., predecessor in interest to the Developer, and MWSC, entitled “Wholesale Water Supply Contract” as amended (“MWSC Contract”). The MWSC Contract provides for water in an amount sufficient to serve up to 1,650 living-unit-equivalents (“LUE’s”) to service the District and Kelly Lane No. 2. Under an Allocation of Water Capacity and Rights, dated April 25, 2008, the Developer, the District and Kelly Lane No. 2 agreed that 322,700 gallons per day or 922 LUE’s of wholesale water supply under the MWSC Contract would be allocated to the District and 254,800 gallons per day or 728 LUE’s of wholesale water supply under the MWSC Contract would be allocated to Kelly Lane No. 2.

**WASTEWATER COLLECTION AND TREATMENT . . .** KM Kelly Lane, Ltd., predecessor to the Developer, and Pflugerville entered into “The Comprehensive Development Agreement Between KM Kelly Lane, Ltd. and Pflugerville, Texas, including Consent to the Inclusion of Land within Water Districts and the Development of a 540 acre tract in Travis County, Texas,” dated August 30, 2004, as amended, and the “North Pflugerville Wastewater Interceptor System (“NPWIS”) Construction and Participation Agreement” dated August 30, 2004, as amended, under which Pflugerville agreed to provide wastewater treatment service to support ultimate build-out of the District. Under the NPWIS Construction and Participation Agreement, the parties made certain agreements regarding the construction of the NPWIS to convey the District’s wastewater flows to Pflugerville’s South Service Area Lift Station (from there, wastewater is pumped to Pflugerville’s Central Wastewater Plant.) The construction of the NPWIS was completed in June 2005. See “THE DISTRICT – Comprehensive Development Agreement.”

**100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . .** According to the Engineer, 90 acres within the District are currently located in the flood plain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated June 16, 1993 for Travis County, as amended on April 17, 2008. Additionally, no lots are developed nor are any lots expected to be developed on the 90 acres that are located within the boundary of the 100-year flood plain.

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”) which shows that severe rainfall events are now occurring more frequently. Within Texas, the Atlas 14 study showed an increased number of rainfall events in a band extending from the upper Gulf Coast in the east and running west generally along the I-10 corridor to Central Texas. In particular, the study shows that Central Texas is more likely to experience larger storms than previously thought. Based on this study, various governmental entities, including Travis County, are contemplating amendments to their regulations that will potentially increase the size of the 100-year flood plain which interim flood plain is based on the current 500-year flood plain, resulting in the interim flood plain regulations applying to a larger number of properties, and potentially increasing the size of detention ponds and drainage facilities required for future construction in all areas (not just in the flood plain). Flood plain boundaries within the District may be redrawn based on the Atlas 14 study based on the higher statistical rainfall amount, and could mean higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the flood plain.

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**WATER, WASTEWATER AND DRAINAGE OPERATIONS:**

**TABLE 1 – 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 monthly rates and fees for the District’s water and sewer service which have been in effect since August 6, 2018.

Monthly Base Charge – Water

<u>Meter Size</u>	<u>Fee</u>
5/8” and 3/4” meter	\$ 13.68
1” meter	\$ 22.84
1½” meter	\$ 45.11
2” meter	\$ 72.85

Monthly Base Charge – Wastewater

Per Fee Unit Equivalent	\$ 40.00
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Water Usage Charge

<u>Gallons</u>	
0-7,000 Gallons	\$ 4.25 (per 1,000 gallons)
7,001-15,000 Gallons	\$ 4.45 (per 1,000 gallons)
15,001 and Above	\$ 5.15 (per 1,000 gallons)

The District also charges the following capacity charges, security deposit, administrative charge, system usage and drainage fees:

Water

<u>Meter Size</u>	<u>Capacity Charges</u>
Residential/Commercial - 5/8” and 3/4” meter	\$ 2,800.00
Residential/Commercial – 1” meter	\$ 5,600.00
Commercial - 1½” meter	Requires Engineering Study
Commercial - 2” meter	Requires Engineering Study

Wastewater

<u>Meter Type</u>	<u>Capacity Charges</u>
All Meters	\$ 2,725.00 (per fee unit equivalent)

Security Deposit

<u>Meter Type</u>	<u>Fee</u>
All Meters	\$ 125.00

Administrative Charge/System Usage and Drainage Fee

<u>Meter Type</u>	<u>Fee</u>
All Meters	\$ 500.00

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**TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT**

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District’s financial statements and records. Reference is made to such statements for further and more complete information. Also see “APPENDIX A – Excerpts from the Annual Financial Report.”

	Fiscal Years Ended September 30,				
	2018	2017	2016	2015	2014
<u>Revenues:</u>					
Service Revenues & Penalties	\$ 97,223	\$ 83,151	\$ 78,757	\$ 65,131	\$ 52,482
Property Taxes & Penalties	416,647	348,472	291,852	241,599	283,190
Tap Connections	30,000	50,000	36,500	52,000	26,500
Interest & Other	27,759	11,035	6,963	4,373	5,179
Total Revenues	<u>\$ 571,629</u>	<u>\$ 492,658</u>	<u>\$ 414,072</u>	<u>\$ 363,103</u>	<u>\$ 367,351</u>
<u>Expenditures:</u>					
Landscape Maintenance	\$ 69,450	\$ 48,190	\$ 28,048	\$ 20,103	\$ 24,431
Security Lights	21,439	20,921	19,406	17,378	13,265
Repairs & Maintenance	6,400	36,040	36,209	-	-
Director Fees & Payroll Taxes	4,683	4,683	6,136	5,975	5,167
Legal Fees	50,332	37,785	45,343	37,753	31,118
Engineering Fees	18,503	19,305	17,667	14,654	19,410
Bookkeeping Fees	16,150	16,150	16,150	16,850	16,500
Audit Fees	11,000	10,500	10,250	9,850	9,600
Tax Appraisal/Collection Fees	2,268	1,981	1,772	1,481	1,658
Other Consulting Fees	8,000	-	-	1,767	727
Insurance	1,815	1,574	1,710	2,566	1,486
Other	2,746	2,500	659	-	2,544
Capital Outlay	675,382	-	-	-	-
Total Expenditures	<u>\$ 888,168</u>	<u>\$ 199,629</u>	<u>\$ 183,350</u>	<u>\$ 128,377</u>	<u>\$ 125,906</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (316,539)	\$ 293,029	\$ 230,722	\$ 234,726	\$ 241,445
Beginning Fund Balance	\$ 1,869,469	\$ 1,579,216	\$ 1,348,494	\$ 1,113,768	\$ 872,323
Adjustments	-	(2,776)	-	-	-
Ending Fund Balance	<u>\$ 1,552,930</u>	<u>\$ 1,869,469</u>	<u>\$ 1,579,216</u>	<u>\$ 1,348,494</u>	<u>\$ 1,113,768</u>

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## DEBT INFORMATION

**TABLE 3 – DEBT SERVICE SCHEDULE**

Fiscal Year Ended 9/30	Outstanding Debt			The Bonds			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest <sup>(a)</sup>	Total	
2020	\$ 525,000	\$ 478,404	\$ 1,003,404	\$ 60,000	\$ 97,790	\$ 157,790	\$ 1,161,194
2021	550,000	465,454	1,015,454	-	137,900	137,900	1,153,354
2022	575,000	450,394	1,025,394	-	137,900	137,900	1,163,294
2023	320,000	434,619	754,619	285,000	137,900	422,900	1,177,519
2024	330,000	426,506	756,506	290,000	129,350	419,350	1,175,856
2025	345,000	417,919	762,919	300,000	120,650	420,650	1,183,569
2026	360,000	408,469	768,469	310,000	108,650	418,650	1,187,119
2027	380,000	397,669	777,669	320,000	96,250	416,250	1,193,919
2028	395,000	386,269	781,269	335,000	83,450	418,450	1,199,719
2029	405,000	374,344	779,344	350,000	70,050	420,050	1,199,394
2030	420,000	362,119	782,119	365,000	59,550	424,550	1,206,669
2031	450,000	349,444	799,444	370,000	48,600	418,600	1,218,044
2032	465,000	335,106	800,106	385,000	37,500	422,500	1,222,606
2033	490,000	319,994	809,994	390,000	25,950	415,950	1,225,944
2034	630,000	303,669	933,669	255,000	14,250	269,250	1,202,919
2035	725,000	281,619	1,006,619	110,000	6,600	116,600	1,123,219
2036	760,000	256,244	1,016,244	110,000	3,300	113,300	1,129,544
2037	790,000	229,281	1,019,281	-	-	-	1,019,281
2038	830,000	201,025	1,031,025	-	-	-	1,031,025
2039	870,000	170,544	1,040,544	-	-	-	1,040,544
2040	910,000	138,344	1,048,344	-	-	-	1,048,344
2041	575,000	104,663	679,663	-	-	-	679,663
2042	375,000	82,200	457,200	-	-	-	457,200
2043	390,000	67,200	457,200	-	-	-	457,200
2044	410,000	51,600	461,600	-	-	-	461,600
2045	430,000	35,200	465,200	-	-	-	465,200
2046	450,000	18,000	468,000	-	-	-	468,000
	<u>\$ 14,155,000</u>	<u>\$ 7,546,295</u>	<u>\$ 21,701,295</u>	<u>\$ 4,235,000</u>	<u>\$ 1,315,640</u>	<u>\$ 5,550,640</u>	<u>\$ 27,251,935</u>

(a) Interest calculated at the rates shown on the inside cover page.

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**FINANCIAL STATEMENT**  
**(Unaudited as September 9, 2019)**

**TABLE 4 – ASSESSED VALUE**

2016 Certified Taxable Assessed Valuation .....	\$ 140,097,205	(a)
2017 Certified Taxable Assessed Valuation .....	\$ 166,734,291	(a)
2018 Certified Taxable Assessed Valuation .....	\$ 203,300,902	(a)
2019 Certified Taxable Assessed Valuation .....	\$ 235,956,498	(a)
Gross Direct Debt Outstanding .....	\$ 18,390,000	(b)
Estimated Overlapping Debt .....	<u>10,302,122</u>	
Gross Direct Debt and Estimated Overlapping Debt .....	\$ 28,692,122	
Debt Service Fund Balance as of September 9, 2019 .....	\$ 927,910	
General Fund Balance as of September 9, 2019 .....	\$ 1,753,930	
Capital Project Fund as of September 9, 2019 .....	\$ 290,763	
Ratio of Gross Direct Debt Outstanding to 2019 Certified Taxable Assessed Valuation .....	7.80%	
Ratio of Gross Direct Debt to 2019 Certified Taxable Assessed Valuation.....	12.16%	
Area of District: 328 acres		
Estimated Population as of October 1, 2019:	2,720	(c)

(a) Assessed valuation of the District as certified by TCAD. See “TAXING PROCEDURES.”

(b) Includes the Bonds and excludes the Refunded Bonds.

(c) Based upon 3.5 residents per completed and occupied single family homes.

**TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	5/13/2006	\$ 23,990,000	\$ 20,105,000	\$ -	\$ 3,885,000
Park	5/13/2006	3,690,000	-	-	3,690,000
Refunding	5/13/2006	35,935,000	520,000	35,000	35,380,000
Total		<u>\$ 63,615,000</u>	<u>\$ 20,625,000</u>	<u>\$ 35,000</u>	<u>\$ 42,955,000</u>

(a) To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization.

**TABLE 6 – CASH AND INVESTMENT BALANCES<sup>(a)</sup>**

Operating Fund .....	\$ 1,753,930
Capital Projects Fund .....	290,763
Debt Service Fund <sup>(b)</sup> .....	927,910

(a) Unaudited as of September 9, 2019.

(b) 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 . . .** Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (“FDIC”) or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share

Insurance Fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA," "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Under Texas law, 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." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or

pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 7 – CURRENT INVESTMENTS**

As of September 9, 2019, the District is currently invested in Texpool, Money Market Fund and LOGIC. 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.

Investments	Market Value	% of Total
TexPool	\$ 546,992	18.40%
LOGIC	2,389,513	80.38%
ABC Bank	36,099	1.21%
	\$ 2,972,604	100.00%

**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 "Texas Municipal Reports," 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 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 subdivision 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.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 9/30/19
Travis County	\$ 1,066,091,179	0.09%	\$ 959,482
Travis County ESD No. 2	-	1.56%	-
Travis County Healthcare District	8,350,000	0.09%	7,515
Pflugerville ISD	596,945,000	1.56%	9,312,342
Kelly Lane WCID #2	17,525,000	0.13%	22,783
Kelly Lane WCID #1	18,390,000 <sup>(a)</sup>	100.00%	18,390,000
Total Direct and Overlapping Tax Supported Debt			\$ 28,692,122
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			12.16%

(a) Includes the Bonds and excludes the Refunded Bonds.



## TAX DATA

**TABLE 8 – TAX COLLECTIONS**

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District’s Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Fiscal Year Ended 9/30	Tax Rate	General Fund	Debt Service Fund	Tax Levy	% Total Collections
2016	\$ 0.9500	\$ 0.2750	\$ 0.6750	\$ 1,001,278	99.80%
2017	0.9500	0.2500	0.7000	1,330,923	99.76%
2018	0.9500	0.2495	0.7005	1,583,976	99.28%
2019	0.8418	0.2568	0.5850	1,711,387	99.65% <sup>(a)</sup>
2020	0.7650	0.2650	0.5000	1,805,067	N/A

(a) Partial collections as of July 31, 2019.

**TABLE 9 – DISTRICT TAX RATES**

	Tax Rates per \$100 Assessed Valuation				
	2019	2018	2017	2016	2015
Debt Service	\$ 0.5000	\$ 0.5850	\$ 0.7005	\$ 0.7000	\$ 0.6750
Maintenance	0.2650	0.2568	0.2495	0.2500	0.2750
Total	\$ 0.7650	\$ 0.8418	\$ 0.9500	\$ 0.9500	\$ 0.9500

**DEBT SERVICE TAX . . .** The District’s tax rate for debt service on the Bonds is legally unlimited as to rate and amount. The District levied a 2019 debt service tax of \$0.5000 in September 2019.

**MAINTENANCE TAX . . .** The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District’s facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District’s voters. An election for such a tax was held on May 13, 2006 at which time a maintenance tax not to exceed \$1.00 per \$100 assessed valuation was approved by the District’s voters. The District levied a 2019 maintenance tax of \$0.2650 in September 2019.

**TABLE 10 – PRINCIPAL TAXPAYERS**

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

Taxpayer	Taxable Assessed Value	% of 2019 Taxable Assessed Valuation
Jen Texas 17 LLC	\$ 1,422,000	0.60%
Gehan Homes Ltd.	1,149,625	0.49%
Sanchez, Joe & Keri	584,944	0.25%
Gooden Real Estate Management LLC	568,813	0.24%
Tomczyszyn, David & Alana	454,192	0.19%
Palacios, Juan Garcia	444,892	0.19%
Evans, Steven Christopher	441,513	0.19%
Smith, Sylvia	441,348	0.19%
Brooks, Gordon L.	427,443	0.18%
Tietjen, Kenneth Ray	426,189	0.18%
	<u>\$ 6,360,959</u>	<u>2.70%</u>

**TAX ADEQUACY FOR DEBT SERVICE . . .** The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2019 Certified Taxable Assessed Valuation of \$235,956,498 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 – Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2020-2046) .....	\$ 1,009,331 <sup>(a)</sup>
\$.4503 Tax Rate on 2019 Certified Taxable Assessed Valuation at 95% collection.....	\$ 1,009,387
Maximum Annual Debt Service Requirement (2033).....	\$ 1,225,944 <sup>(a)</sup>
\$.5470 Tax Rate on 2019 Certified Taxable Assessed Valuation at 95% collection.....	\$ 1,226,148

(a) Includes the Bonds and excludes the Refunded Bonds.

## TAXING PROCEDURES

**AUTHORITY TO LEVY TAXES . . .** The Board is authorized to levy an annual ad valorem tax without legal limitation as to rate or amount on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations 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 and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – District Bond Tax Rate Limitation,” and “TAX DATA – Maintenance Tax.”

**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 the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. TCAD has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis 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 . . .** Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District’s preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2018 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject

to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

*Residential Homestead* . . . The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The District has never adopted a general homestead exemption.

*Tax Abatement* . . . Travis County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Travis County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

*Freeport Goods and Goods-in-Transit* . . . 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 refining petroleum or natural gas), and to aircraft and 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, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax 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 2011 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 storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more 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 receives 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. On December 4, 2007, the Board conducted a public hearing on the question of whether to provide for taxation of goods-in-transit and adopted a Resolution Providing for Taxation of Goods-in-Transit, by which the District took official action to tax goods-in-transit.

**VALUATION OF PROPERTY FOR TAXATION** . . . Generally, property in the District must be appraised by the TCAD 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.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. 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 fair 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. Provisions of the Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the 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 TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the TCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the TCAD 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 Appraisal District 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 TCAD 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 for 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 TCAD 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 values, 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. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become 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. 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. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

**ROLLBACK OF OPERATION AND MAINTENANCE TAX RATE . . .** Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions. 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 divides water districts into three separate categories and creates new rollback tax rate and election procedures for each category. Under SB 2, an election that could result in a reduction of the water district's operation and maintenance component of the total tax rate will either be required or the voters will have the right to petition for the election if the adopted total tax rate exceeds the threshold established for the applicable category (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. Thus, under 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 the operation and maintenance tax rate that would impose 1.08 times

the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

#### *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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, 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 Other Districts will have the right to petition for an election to reduce the operation and maintenance tax rate only if the Other District adopts 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. If an election is called and passes, the total tax rate is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

#### *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 result in different rollback tax rate and election procedures.

**DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of 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 – Estimated Overlapping Debt Statement." 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 (a taxpayer may redeem commercial property within six months and residential homestead property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records other property may be redeemed by a taxpayer within 180 days of such filing) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – Tax Collections and Foreclosure Remedies."

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## LEGAL MATTERS

**LEGAL OPINIONS . . .** The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the 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 governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. See “APPENDIX B – Form of Bond Counsel Opinion.” Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions “SALE AND DISTRIBUTION OF BONDS – Securities Laws,” “PLAN OF FINANCING – Refunded Bonds,” “THE BONDS” (except for the subcaptions “Book-Entry-Only System,” “DTC Redemption Provision” and “Remedies in Event of Default”), “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “Compliance with Prior Undertakings”) to determine that the information relating to the Bonds and the Bond Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

The legal fees to be paid 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.

**NO-LITIGATION CERTIFICATE . . .** The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking 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

**OPINION . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”) for federal income tax purposes interest on the Bonds (i) will be excludable from the “gross income” of the holders thereof and (ii) the Bonds will not be treated as “specified private activity bonds” the interest of which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX B – Form of Bond Counsel’s Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the project financed with the Bond proceeds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

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

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

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

**INFORMATION REPORTING AND BACKUP WITHHOLDING . . .** Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 55(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to certain information to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 10 and in “APPENDIX A – Excerpts from the Annual Financial Report.” The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.



The District may provide updated 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 it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in “APPENDIX A – Excerpts from the Annual Financial Report” 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 September 30. Accordingly, it must provide updated information by March 31 of each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**NOTICE OF CERTAIN EVENTS . . .** 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 status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of financial obligation (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Bond Order make any provision for debt service reserve or a trustee.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

**AVAILABILITY OF INFORMATION FROM THE MSRB . . .** The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

## FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm was employed in 2014 as Financial Advisor to the District. The fees paid to 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. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a 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.

## OFFICIAL STATEMENT

**PREPARATION . . .** The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “The District.” The Board of Directors in its official capacity has relied upon the below mentioned sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from sources including: Jones-Heroy & Associates, Inc.; KM Avalon, Ltd.; Bott Douthitt, P.L.L.C.; Armbrust & Brown, PLLC and McCall Gibson Swedlund, Barfoot PLLC..

**CONSULTANTS . . .** In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

**The Engineer:** The information contained in the 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 the Engineer, and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

**Appraisal District:** The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned “FINANCIAL STATEMENT,” has been provided by the TCAD, in reliance upon their authority as experts in the field of appraising and tax assessing.

**Auditor:** The District’s financial statements for fiscal year ending September 30, 2018 were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, and excerpts of the District’s Audited Financial Statements as of September 30, 2018 have been included as APPENDIX A in reliance upon such firm’s authority as a consultant in the field of accounting.

## MISCELLANEOUS

**RATINGS . . .** The Bonds and the outstanding debt of the District have been rated “Baa1” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement. An explanation of the significance of such 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 they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of the 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.

All estimates, statements and assumptions in this Official Statement and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ JAMES L. COTTON

President, Board of Directors

Kelly Lane Water Control and Improvement District No. 1

/s/ SANDLIN NICCUM

Secretary, Board of Directors

Kelly Lane Water Control and Improvement District No. 1

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS**

Unlimited Tax Improvement and  
Refunding Bonds, Series 2013

Amount	Maturity	Coupon
\$ 280,000	9/1/2023	3.250%
285,000	9/1/2024	3.375%
295,000	9/1/2025	3.450%
305,000	9/1/2026	3.600%
315,000	9/1/2027 <sup>(a)</sup>	4.000%
330,000	9/1/2028 <sup>(a)</sup>	4.000%
345,000	9/1/2029 <sup>(a)</sup>	4.000%
360,000	9/1/2030 <sup>(a)</sup>	4.000%
370,000	9/1/2031 <sup>(a)</sup>	4.000%
390,000	9/1/2032 <sup>(a)</sup>	4.000%
400,000	9/1/2033 <sup>(a)</sup>	4.000%
270,000	9/1/2034 <sup>(a)</sup>	4.000%
125,000	9/1/2035 <sup>(a)</sup>	4.000%
130,000	9/1/2036 <sup>(a)</sup>	4.000%
<u>\$ 4,200,000</u>		

Redemption Date: 12/23/2019

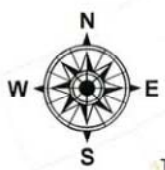
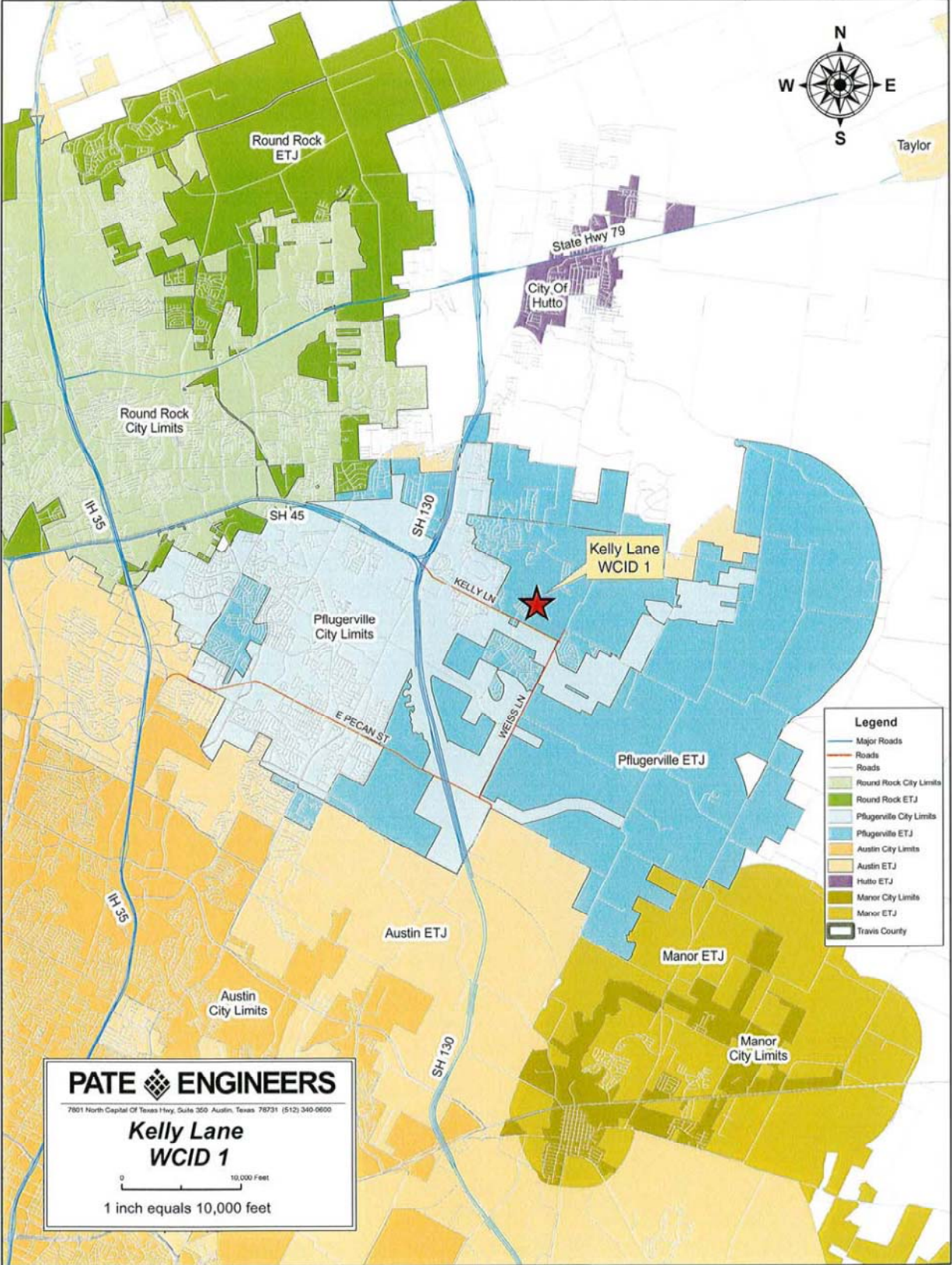
Redemption Price: 100%

<sup>(a)</sup> Term Bonds.

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## LOCATION MAP

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Taylor

- Legend**
- Major Roads
  - Roads
  - Roads
  - Round Rock City Limits
  - Round Rock ETJ
  - Pflugerville City Limits
  - Pflugerville ETJ
  - Austin City Limits
  - Austin ETJ
  - Hutto ETJ
  - Manor City Limits
  - Manor ETJ
  - Travis County

**PATE ENGINEERS**  
 7801 North Capital Of Texas Hwy, Suite 350 Austin, Texas 78731 (512) 340-0600

**Kelly Lane  
 WCID 1**

0 10,000 Feet  
 1 inch equals 10,000 feet

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## **PHOTOGRAPHS**

The homes shown in the attached 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. See "THE DISTRICT.

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**APPENDIX A**

**EXCERPTS FROM THE ANNUAL FINANCIAL REPORT**

The information contained in this APPENDIX has been excerpted from the audited financial statements of Kelly Lane Water Control and Improvement District No. 1 for the fiscal year ended September 30, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

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**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

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Board of Directors  
Kelly Lane Water Control and  
Improvement District No. 1  
Travis County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Kelly Lane Water Control and Improvement District No. 1 (the "District"), as of and for the year ended September 30, 2018, 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.

**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 September 30, 2018, 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 Budgetary Comparison Schedule – 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 Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are 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 Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Austin, Texas

February 4, 2019

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the management of Kelly Lane Water Control and Improvement District No. 1 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2018. Since this information is designed to focus on current year activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the nonspendable and unassigned fund balance was \$1,552,930, a decrease of \$316,539 from the previous fiscal year. General Fund revenues increased from \$492,658 in the previous fiscal year to \$571,629 in the current fiscal year primarily due to an increase in the District's assessed valuation.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$769,957 in the previous fiscal year to \$887,816 in the current fiscal year. Debt Service Fund revenues increased from \$984,114 in the previous fiscal year to \$1,192,582 in the current fiscal year primarily due to an increase in the District's assessed valuation. The District paid \$405,000 of bond principal and \$661,255 of bond interest during the current fiscal year.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$1,710,353 in the previous fiscal year to \$285,516 in the current fiscal year. The District purchased \$1,427,851 of infrastructure assets and paid \$5,817 of bond issuance related expenditures.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$547,359. Net position increased from a deficit balance of \$744,002 to a deficit balance of \$196,643.

**OVERVIEW OF THE DISTRICT**

The District, a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality ("TCEQ") on May 26, 2005. The District was created to provide water, wastewater, and storm drainage facilities to the land within its boundaries and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended. The District is located entirely within the extraterritorial jurisdiction of the City of Pflugerville and wholly within the boundaries of Travis County, Texas. The District is situated approximately 4 miles northeast of the central business district of the City of Pflugerville.

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *Other Supplementary Information* (the OSI section)

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Governmental Funds Total" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

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, 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.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Funds Balance Sheet* includes a column (titled "Governmental Funds Total") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**OVERVIEW OF THE FINANCIAL STATEMENTS (continued) -**

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Increase
	2018	2017	(Decrease)
Current and other assets	\$ 2,783,532	\$ 4,406,234	\$ (1,622,702)
Capital and non-current assets	15,857,543	14,085,881	1,771,662
<b>Total Assets</b>	<b>18,641,075</b>	<b>18,492,115</b>	<b>148,960</b>
Current Liabilities	587,911	486,263	101,648
Long-term Liabilities	18,249,807	18,749,854	(500,047)
<b>Total Liabilities</b>	<b>18,837,718</b>	<b>19,236,117</b>	<b>(398,399)</b>
Net Investment in Capital Assets	(2,611,748)	(3,345,797)	734,049
Restricted	845,250	727,403	117,847
Unrestricted	1,569,855	1,874,392	(304,537)
<b>Total Net Position</b>	<b>\$ (196,643)</b>	<b>\$ (744,002)</b>	<b>\$ 547,359</b>

The District's combined net position increased from a deficit balance of \$744,002 in the previous fiscal year to a deficit balance of \$196,643 in the current fiscal year. Some of the District's assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$1,569,855.

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) -**

**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Increase (Decrease)
	2018	2017	
Service revenues, including penalties	\$ 97,223	\$ 83,151	\$ 14,072
Property taxes, including penalties	1,585,375	1,330,750	254,625
Tap connections	30,000	50,000	(20,000)
Other	59,396	24,285	35,111
<b>Total Revenues</b>	<b>1,771,994</b>	<b>1,488,186</b>	<b>283,808</b>
Legal fees	50,332	37,785	12,547
Accounting/Audit fees	27,150	26,650	500
Engineering fees	18,503	19,305	(802)
Landscaping/Utilities/Maintenance	97,289	105,151	(7,862)
Other	26,380	19,351	7,029
Debt Service	673,410	906,807	(233,397)
Depreciation	331,571	275,252	56,319
<b>Total Expenses</b>	<b>1,224,635</b>	<b>1,390,301</b>	<b>(165,666)</b>
<b>Change in Net Position</b>	<b>547,359</b>	<b>97,885</b>	<b>449,474</b>
<b>Beginning Net Position</b>	<b>(744,002)</b>	<b>(841,887)</b>	<b>97,885</b>
<b>Ending Net Position</b>	<b>\$ (196,643)</b>	<b>\$ (744,002)</b>	<b>\$ 547,359</b>

Revenues were \$1,771,994 for the fiscal year ended September 30, 2018 while expenses were \$1,224,635. Net position increased \$547,359.

Property tax revenue in the current fiscal year is \$1,585,375. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2017 tax year (September 30, 2018 fiscal year) were based upon a current adjusted assessed value of \$166,664,186 and a tax rate of \$0.95 per \$100 of assessed valuation. Property taxes levied for the 2016 tax year (September 30, 2017 fiscal year) were based upon an adjusted assessed value of \$139,980,832 and a tax rate of \$0.95 per \$100 of assessed valuation.

The tax rate levied is determined after the District reviews the General Fund budget requirements and the Debt Service Fund debt service obligations of the District. The District's primary revenue sources are property taxes, service revenues and tap connection fees.

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>			
	2018	2017	2016	2015
Cash and investments	\$ 2,736,215	\$ 4,355,421	\$ 2,708,782	\$ 1,805,699
Receivables and Prepaid expenses	35,450	39,626	47,596	48,342
<b>Total Assets</b>	<b>2,771,665</b>	<b>4,395,047</b>	<b>2,756,378</b>	<b>1,854,041</b>
Accounts payable	22,145	28,290	26,507	8,986
Other payables	8,964	1,636	10,698	12,562
<b>Total Liabilities</b>	<b>31,109</b>	<b>29,926</b>	<b>37,205</b>	<b>21,548</b>
Deferred Inflows of Resources	14,294	15,342	8,784	21,877
Nonspendable	636	1,156	-	-
Restricted	1,173,332	2,480,310	1,131,173	462,122
Unassigned	1,552,294	1,868,313	1,579,216	1,348,494
<b>Total Fund Balance</b>	<b>2,726,262</b>	<b>4,349,779</b>	<b>2,710,389</b>	<b>1,810,616</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,771,665</b>	<b>\$ 4,395,047</b>	<b>\$ 2,756,378</b>	<b>\$ 1,854,041</b>

For the fiscal year ended September 30, 2018, the District's governmental funds reflect a combined fund balance of \$2,762,262. This fund balance includes a \$316,539 decrease in the General Fund.

The Debt Service Fund reflects an increase of \$117,859 in fiscal year 2018. The Debt Service Fund remitted bond principal of \$405,000 and interest of \$661,255. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$1,424,837 decrease in fund balance for fiscal year 2018. The District purchased \$1,427,851 of infrastructure assets and paid \$5,817 of bond issuance related expenditures.

**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating costs. On September 13, 2017, the Board of Directors approved a budget including revenues of \$521,299 as compared to expenditures of \$203,190. When comparing actual to budget, the District had a negative variance of \$634,648 due to \$675,382 of capital outlay that was not originally budgeted. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.



**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**CAPITAL ASSETS**

The District's governmental activities had invested \$15,857,543 in land and infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	<u>9/30/2018</u>	<u>9/30/2017</u>
Capital Assets:		
Land	\$ 311,037	\$ 311,037
Park Improvements	675,382	-
Water/Wastewater/Drainage	16,158,848	14,730,997
Less: Accumulated Depreciation	(1,287,724)	(956,153)
Total Net Capital Assets	<u>\$ 15,857,543</u>	<u>\$ 14,085,881</u>

More detailed information about the District's capital assets is presented in the *Notes to the Financial Statements*.

**LONG-TERM DEBT**

The District has the following balances outstanding on unlimited tax bonds:

	<u>Bonds Payable</u>
Series 2013	\$ 5,225,000
Series 2015	2,920,000
Series 2016	7,370,000
Series 2017	3,345,000
Total	<u>\$ 18,860,000</u>

The District owes approximately \$18.9 million to bondholders at September 30, 2018. During the year, the District paid principal reductions of \$405,000 and interest payments of \$661,255. The ratio of the District's long-term debt to the total 2017 taxable assessed valuation (\$166,664,186) is 11.3%. The District's estimated population, as of January 10, 2017, is 1,816. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**KELLY LANE WATER CONTROL AND IMPROVEMENT  
DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The amount of assessed value of property within the District for the 2018 tax year (September 30, 2019 fiscal year) is approximately \$201.5 million and the tax rate levied was \$0.8418 per \$100 of assessed valuation. Approximately 31% of the tax revenues derived from this levy will be to fund General Fund costs and approximately 69% of the property tax revenues will be used to make debt service payments on the District's bond debt.

The adopted budget for fiscal year 2019 projects a General Fund fund balance increase of \$377,464.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

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# FINANCIAL STATEMENTS

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
<b><u>ASSETS</u></b>						
Cash and cash equivalents:						
Cash on deposit	\$ 44,949	\$ -	\$ -	\$ 44,949	\$ -	\$ 44,949
Cash equivalent investments	1,516,779	888,971	285,516	2,691,266	-	2,691,266
Receivables:						
Service, net of allowance of doubtful accounts of \$0	20,108	-	-	20,108	-	20,108
Taxes	4,646	9,648	-	14,294	-	14,294
Interfund	-	412	-	412	(412)	-
Prepaid expenses	636	-	-	636	12,279	12,915
Capital assets, net of accumulated depreciation:						
Land	-	-	-	-	311,037	311,037
Park improvements	-	-	-	-	655,683	655,683
Water/wastewater/drainage system	-	-	-	-	14,890,823	14,890,823
<b>TOTAL ASSETS</b>	<b><u>\$ 1,587,118</u></b>	<b><u>\$ 899,031</u></b>	<b><u>\$ 285,516</u></b>	<b><u>\$ 2,771,665</u></b>	<b><u>15,869,410</u></b>	<b><u>18,641,075</u></b>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 20,578	\$ 1,567	\$ -	\$ 22,145	-	22,145
Accrued interest payable	-	-	-	-	52,214	52,214
Review fee deposits	8,552	-	-	8,552	-	8,552
Interfund	412	-	-	412	(412)	-
Bonds payable:						
Due within one year	-	-	-	-	505,000	505,000
Due after one year	-	-	-	-	18,249,807	18,249,807
<b>TOTAL LIABILITIES</b>	<b><u>29,542</u></b>	<b><u>1,567</u></b>	<b><u>-</u></b>	<b><u>31,109</u></b>	<b><u>18,806,609</u></b>	<b><u>18,837,718</u></b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Property taxes	4,646	9,648	-	14,294	(14,294)	-
<b>TOTAL DEFERRED INFLOWS     OF RESOURCES</b>	<b><u>4,646</u></b>	<b><u>9,648</u></b>	<b><u>-</u></b>	<b><u>14,294</u></b>	<b><u>(14,294)</u></b>	<b><u>-</u></b>
<b><u>FUND BALANCES / NET POSITION</u></b>						
Fund balances:						
Nonspendable - prepaid expenses	636	-	-	636	(636)	-
Restricted for debt service	-	887,816	-	887,816	(887,816)	-
Restricted for authorized construction	-	-	285,516	285,516	(285,516)	-
Unassigned	1,552,294	-	-	1,552,294	(1,552,294)	-
<b>TOTAL FUND BALANCES</b>	<b><u>1,552,930</u></b>	<b><u>887,816</u></b>	<b><u>285,516</u></b>	<b><u>2,726,262</u></b>	<b><u>(2,726,262)</u></b>	<b><u>-</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b><u>\$ 1,587,118</u></b>	<b><u>\$ 899,031</u></b>	<b><u>\$ 285,516</u></b>	<b><u>\$ 2,771,665</u></b>		
<b><u>NET POSITION:</u></b>						
Net investment in capital assets					(2,611,748)	(2,611,748)
Restricted for debt service					845,250	845,250
Unrestricted					1,569,855	1,569,855
<b>TOTAL NET POSITION</b>					<b><u>\$ (196,643)</u></b>	<b><u>\$ (196,643)</u></b>

*The accompanying notes are an integral part of this statement.*

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
<b>REVENUES:</b>						
Service revenues, including penalties	\$ 97,223	\$ -	\$ -	\$ 97,223	\$ -	\$ 97,223
Property taxes, including penalties	416,647	1,169,776	-	1,586,423	(1,048)	1,585,375
Tap connections	30,000	-	-	30,000	-	30,000
Interest and other	27,759	22,806	8,831	59,396	-	59,396
<b>TOTAL REVENUES</b>	<u>571,629</u>	<u>1,192,582</u>	<u>8,831</u>	<u>1,773,042</u>	<u>(1,048)</u>	<u>1,771,994</u>
<b>EXPENDITURES / EXPENSES:</b>						
Current:						
Landscape maintenance	69,450	-	-	69,450	-	69,450
Security lights	21,439	-	-	21,439	-	21,439
Repairs and maintenance	6,400	-	-	6,400	-	6,400
Director fees, including payroll taxes	4,683	-	-	4,683	-	4,683
Legal fees	50,332	-	-	50,332	-	50,332
Engineering fees	18,503	-	-	18,503	-	18,503
Bookkeeping fees	16,150	-	-	16,150	-	16,150
Audit fees	11,000	-	-	11,000	-	11,000
Tax appraisal/collection fees	2,268	6,368	-	8,636	-	8,636
Public notice	626	-	-	626	-	626
Other consulting fees	8,000	-	-	8,000	-	8,000
Insurance	1,815	-	-	1,815	-	1,815
Other	2,120	500	-	2,620	-	2,620
Debt service:						
Principal	-	405,000	-	405,000	(405,000)	-
Interest	-	661,255	-	661,255	4,738	665,993
Fiscal agent fees	-	1,600	-	1,600	-	1,600
Bond issuance costs	-	-	5,817	5,817	-	5,817
Capital outlay	675,382	-	1,427,851	2,103,233	(2,103,233)	-
Depreciation	-	-	-	-	331,571	331,571
<b>TOTAL EXPENDITURES / EXPENSES</b>	<u>888,168</u>	<u>1,074,723</u>	<u>1,433,668</u>	<u>3,396,559</u>	<u>(2,171,924)</u>	<u>1,224,635</u>
<b>NET CHANGE IN FUND BALANCES</b>	(316,539)	117,859	(1,424,837)	(1,623,517)	1,623,517	-
<b>CHANGE IN NET POSITION</b>					547,359	547,359
<b>FUND BALANCES / NET POSITION:</b>						
Beginning of the year	1,869,469	769,957	1,710,353	4,349,779	(5,093,781)	(744,002)
End of the year	<u>\$ 1,552,930</u>	<u>\$ 887,816</u>	<u>\$ 285,516</u>	<u>\$ 2,726,262</u>	<u>\$ (2,922,905)</u>	<u>\$ (196,643)</u>

*The accompanying notes are an integral part of this statement.*

**NOTES TO THE  
FINANCIAL STATEMENTS**

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Kelly Lane Water Control and Improvement District No. 1 (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. GAAP for local governments includes those principles prescribed by the *Governmental Accounting Standards Board* ("GASB"), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created, organized and established on May 26, 2005, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapter 49 and 51 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected or deemed elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB standards which are included in the District's reporting entity.

**Basis of Presentation - Government-wide and Fund Financial Statements** - 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 sets 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:

- 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.



**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

*Basis of Presentation - Government-wide and Fund Financial Statements (continued) -*

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

The financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-wide Statements:**

The District's Statement of Net Position includes both non-current assets and non-current liabilities of the District. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District's capital assets, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

- **Fund Financial Statements:**

Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures of either fund category) for the determination of major funds. All of the District's funds are reported as major funds.

*Governmental Fund Types* - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund types:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Governmental Fund Types (continued) -*

- **Debt Service Fund** - The Debt Service Fund is used to account for resources restricted, committed or assigned for the payment of debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

*Non-current Governmental Assets and Liabilities* - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

*Basis of Accounting*

*Government-wide Statements* - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

*Fund Financial Statements* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balances. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available)

"Measurable" means that the amount of the transaction can be determined and "available" means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with generally accepted accounting principles.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Basis of Accounting (continued) -*

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports deferred inflows of resources on its balance sheet. Deferred inflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the liability for deferred inflow is removed from the balance sheet and revenue is recognized.

*Budgets and Budgetary Accounting* - An unappropriated budget was adopted on September 13, 2017, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

*Cash and Cash Equivalents* - Cash and cash equivalents include cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer's Investment Pool, are recorded at amortized cost.

*Accounts Receivable* - The District provides for uncollectible service accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District had no allowance for uncollectible accounts at September 30, 2018.

*Capital Assets* - Capital assets, which include land, park improvements and the water, wastewater and drainage system (including water and wastewater capacity fees), are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including the water, wastewater and drainage system, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated acquisition value at the time received. Interest incurred during construction of capital facilities is capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Water Quality Ponds	25

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Interfund Transactions* - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

*Pensions* - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be “employees” for federal payroll tax purposes.

*Long-Term Debt* - Unlimited tax bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

*Fund Balance* - 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.
- *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 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.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**1. 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.

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

Adjustments to convert the Governmental Funds Balance Sheet to the Statement of Net Position are as follows :

Fund Balances - Total Governmental Funds		\$ 2,726,262
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds -		
Capital assets	\$ 17,145,267	
Less: Accumulated depreciation	<u>(1,287,724)</u>	15,857,543
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred inflows of resources for revenues earned but not available.		14,294
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable	(18,860,000)	
Issuance discount, net of accumulated amortization	142,842	
Issuance premium, net of accumulated amortization	(37,649)	
Prepaid bond insurance premium	12,279	
Accrued interest	<u>(52,214)</u>	<u>(18,794,742)</u>
Net Position - Governmental Activities		<u>\$ (196,643)</u>

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS (continued) -**

Adjustments to convert the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities are as follows:

Net Change in Fund Balances - Governmental Funds	\$	(1,623,517)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report:		
Bond principal in year paid	\$	405,000
Interest expenditures in year paid		(4,738)
Tax revenue when collected		(1,048)
Capital outlay in year paid		2,103,233
		2,502,447
Governmental funds do not report -		
Depreciation		(331,571)
		(331,571)
Change in Net Position - Governmental Activities	\$	547,359

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The investment policies of the District are governed by State statute and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be FDIC-insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; and securities collateralizing time deposits are held by independent third party trustees.

**Cash** - At September 30, 2018, the carrying amount of the District's deposits was \$44,949 and the bank balance was \$51,650. The bank balance was covered by federal depository insurance.

**Cash Equivalents and Investments -**

*Interest rate risk.* In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -**

**Cash Equivalents and Investments (continued) -**

*Credit risk.* The District's investment policy requires the application of the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States government and/or its agencies and instrumentalities;
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share;
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency;
- Securities issued by a state or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and
- Public funds investment pools rated AAA or AAAM by a nationally recognized rating agency.

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 meets the criteria established in GASB Statement No. 79 and measures all of 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.

At September 30, 2018, the District held the following investments:

Investment	Fair Value at 9/30/2018	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
Texpool	\$ 2,691,266	\$ 1,516,779	\$ 888,971	\$ 285,516	AAAM	Standard & Poors
	\$ 2,691,266	\$ 1,516,779	\$ 888,971	\$ 285,516		

(1) Restricted for payment of debt service and cost of assessing and collecting taxes.

(2) Restricted for purchase of capital assets.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)-**

*Concentration of credit risk.* In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2018, the District did not own any investments in individual securities.

*Custodial credit risk-deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2018, the District's bank deposits were fully covered by FDIC insurance.

**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Collector bills and collects the District's property taxes. The Board of Directors set tax rates for the 2017 tax year on September 13, 2017.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2017 tax roll. The tax rate, based on total taxable assessed valuation of \$166,664,186 was \$0.95 on each \$100 valuation and was allocated \$0.2495 to the General Fund and \$0.7005 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on May 13, 2006.

Property taxes receivable at September 30, 2018, consisted of the following:

	General Fund	Debt Service Fund	Total
Current year levy	\$ 754	\$ 2,115	\$ 2,869
Prior years' levies	3,892	7,533	11,425
	\$ 4,646	\$ 9,648	\$ 14,294



**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**5. INTERFUND ACCOUNTS**

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds are made, is as follows at September 30, 2018:

	Interfund	
	Receivables	Payables
<b>General Fund -</b>		
Debt Service Fund	\$ -	\$ 412
<b>Debt Service Fund -</b>		
General Fund	412	-
	\$ 412	\$ 412

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 10/1/2017	Additions	Deletions	Balance 9/30/2018
Capital assets not being depreciated-				
Land	\$ 311,037	\$ -	\$ -	\$ 311,037
Capital assets being depreciated-				
Park Improvements	-	675,382	-	675,382
Water/Wastewater/Drainage System	14,730,997	1,427,851	-	16,158,848
Total capital assets being depreciated	14,730,997	2,103,233	-	16,834,230
Less accumulated depreciation for-				
Park Improvements	-	(19,699)	-	(19,699)
Water/Wastewater/Drainage System	(956,153)	(311,872)	-	(1,268,025)
Total accumulated depreciation	(956,153)	(331,571)	-	(1,287,724)
Total capital assets being depreciated, net of accumulated depreciation	13,774,844	1,771,662	-	15,546,506
Total capital assets, net	\$ 14,085,881	\$ 1,771,662	\$ -	\$ 15,857,543

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**7. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2018:

	Unlimited Tax and Revenue Bonds
Bonds payable at October 1, 2017	\$ 19,265,000
Bonds issued	-
Bonds retired	(405,000)
Bond discount, net of accumulated amortization	(142,842)
Bond premium, net of accumulated amortization	37,649
Bonds payable at September 30, 2018	\$ 18,754,807

Bonds payable at September 30, 2018, were comprised of the following individual issues:

**Unlimited Tax Bonds:**

\$2,920,000 – 2015 Unlimited Tax Bonds payable serially through the year 2040 at interest rates which range from 2.50% to 3.625%. Bonds maturing on or after September 1, 2024, are callable prior to maturity beginning on September 1, 2022. Bonds maturing September 1, 2024, 2027, 2030, 2033, 2035, 2037 and 2040 are term bonds and are subject to mandatory sinking fund redemption.

\$7,370,000 – 2016 Unlimited Tax Bonds payable serially through the year 2046 at interest rates which range from 2.00% to 4.00%. Bonds maturing on or after September 1, 2024, are callable prior to maturity beginning on September 1, 2023. Bonds maturing September 1, 2033, 2035, 2037, 2040, 2043 and 2046 are term bonds and are subject to mandatory sinking fund redemption.

\$3,345,000 – 2017 Unlimited Tax Bonds payable serially through the year 2041 at interest rates which range from 2.00% to 3.75%. Bonds maturing on or after September 1, 2026, are callable prior to maturity beginning on September 1, 2024. Bonds maturing September 1, 2026, 2028, 2030, 2032, 2034, 2036, 2038 and 2041 are term bonds and are subject to mandatory sinking fund redemption.

**Unlimited Tax and Refunding Bond -**

\$5,225,000 – 2013 Unlimited Tax and Refunding Bonds payable serially through the year 2036 at interest rates which range from 2.75% to 4.00%. Bonds maturing on or after September 1, 2020, are callable prior to maturity beginning on September 1, 2019. Bonds maturing September 1, 2029, September 1, 2032, and September 1, 2036, are term bonds and are subject to mandatory sinking fund redemption.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**7. BONDED DEBT (continued) -**

The annual requirements to amortize all bonded debt at September 30, 2018, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2019	\$ 505,000	\$ 651,779	\$ 1,156,779
2020	525,000	639,679	1,164,679
2021	550,000	626,729	1,176,729
2022	575,000	611,669	1,186,669
2023	600,000	595,894	1,195,894
2024-2028	3,340,000	2,694,142	6,034,142
2029-2033	4,095,000	2,075,406	6,170,406
2034-2038	4,260,000	1,308,232	5,568,232
2039-2043	3,120,000	562,950	3,682,950
2044-2046	1,290,000	104,800	1,394,800
	\$ 18,860,000	\$ 9,871,280	\$ 28,731,280

Bonds authorized but not issued as of September 30, 2018, are as follows:

Type	Amount
Unlimited Tax Bonds	\$ 3,885,000
Park & Recreation Bonds	\$ 3,690,000
Refunding Bonds	\$ 35,415,000

\$887,816 is available in the Debt Service Fund to service the bonded debt.

The existing 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.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**8. COMMITMENTS AND CONTINGENCIES**

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of September 30, 2018, has recorded no liability pertaining to such costs.

**9. WHOLESALE WATER SUPPLY CONTRACT**

On April 8, 2005, KM Kelly Lane, Ltd. entered into a Wholesale Water Supply Contract (“Water Contract”) with Manville Water Supply Corporation (“Manville”). Upon final creation, the District and Kelly Lane Water Control and Improvement District No. 2 (“WCID No. 2”) joined in the Water Contract. On January 20, 2006, KM Kelly Lane, Ltd. assigned its rights and obligations under the Water Contract to KM Avalon, Ltd. Under terms of the Water Contract, Manville had agreed to supply to the District and WCID No. 2 a maximum of 577,500 gallons per day, or 1,650 living unit equivalents (“LUEs”) of water service. The Water Contract requires the District and WCID No. 2 to construct, install, operate and maintain the internal water facilities within their service areas. On April 25, 2008, KM Avalon, Ltd. allocated 922 LUEs of wholesale water supply provided by Manville under the Water Contract to the District and 728 LUEs to WCID No. 2. The term of the contract is 50 years. The water contract has been amended by Amendments dated September 23, 2008, and July 14, 2010, in order to revise the required takedown schedule under the water contract.

**10. COMPREHENSIVE DEVELOPMENT AGREEMENT**

On August 30, 2004, KM Kelly Lane, Ltd. entered into a Comprehensive Development Agreement, as amended, (“Creation Agreement”) with the City of Pflugerville (the “City”) regarding creation of the District and WCID No. 2 and a North Pflugerville Wastewater Interceptor System Construction and Participation Agreement (“NPWIS Agreement”) with the City and Rowe Lane Development, Ltd. The Creation Agreement provides that the City will provide wholesale wastewater service to land within the boundaries of the District and WCID No. 2 of at least 1,700 LUEs, but not more than 2,200 LUEs. The parties further agreed that the District would be allocated at least 950 LUEs but not more than 1,230 LUEs of wastewater service while WCID No. 2 would be allocated at least 750 LUEs but not more than 970 LUEs of wastewater service. The NPWIS Agreement provides for the construction and operation of the North Pflugerville Wastewater Interceptor System (“NPWIS”) to transport wastewater from, among other areas, the land within the District and WCID No. 2. Effective October 18, 2005, KM Kelly Lane, Ltd. assigned its rights, duties and obligations under the Creation Agreement and the NPWIS Agreement to KM Avalon, Ltd. Effective April 25, 2008, KM Avalon, Ltd. assigned all of its rights to wastewater capacity and service under the Creation Agreement and the NPWIS Agreement to the District and WCID No. 2, according to the allocations described above. The districts agreed to perform all of their obligations under the Creation Agreement with regard to the assigned wastewater service and capacity, including the collection and payment of all monthly charges and impact fees payable for wastewater service provided by the City, and to reimburse KM Avalon, Ltd. for its allocated capacity in the NPWIS.

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

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**11. JOINT FACILITIES AGREEMENT**

Effective as of February 19, 2008, the District entered into a Joint Facilities Agreement [Avalon Detention Pond No. 1] (“Joint Facilities Agreement”) with WCID No. 2 and KM Avalon, Ltd. regarding construction, ownership and operation of Avalon Detention Pond No. 1 (the “pond”). The Joint Facilities Agreement was subsequently amended by Amendment No. 1 to Joint Facilities Agreement dated effective as of April 25, 2008. Under terms of the Joint Facilities Agreement as amended, the District and WCID No. 2 will reimburse capital costs and operations and maintenance costs for the pond based on the land in each district which drains to the pond as set forth below:

**Avalon Detention Pond No. 1**

The District	59%
WCID No. 2	41%

**12. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies and the Texas Municipal League Intergovernmental Risk Pool (“TML Pool”) to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board. Rates are estimated to include all claims expected to occur during the policy including claims incurred but not reported. The TML Pool has established claims reserves for each of the types of insurance offered. Although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members may receive returns of contributions if actual results are more favorable than estimated.

**13. ESCROW REQUIREMENT**

On January 30, 2017, the District was directed by an order of the Texas Commission on Environmental Quality (the “Commission”) to escrow \$1,012,029 in Series 2017 bond proceeds for Avalon Phases 17 A and B construction costs and contingencies pending the Commission’s approval, which was contingent upon the Commission’s receipt of all final construction documents. On March 2, 2018, the Commission approved release of the escrowed funds, which were then used by the District for developer reimbursement.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**SEPTEMBER 30, 2018**

	Actual	Original and Final Budget	Variance Positive (Negative)
<b>REVENUES:</b>			
Service revenues, including penalties	\$ 97,223	\$ 90,796	\$ 6,427
Property taxes, including penalties	416,647	402,903	13,744
Tap connections	30,000	18,000	12,000
Interest	27,759	9,600	18,159
<b>TOTAL REVENUES</b>	<u>571,629</u>	<u>521,299</u>	<u>50,330</u>
<b>EXPENDITURES:</b>			
Current:			
Landscape maintenance	69,450	48,000	(21,450)
Security lights	21,439	25,400	3,961
Repairs and maintenance	6,400	25,450	19,050
Director fees, including payroll taxes	4,683	6,520	1,837
Legal fees	50,332	44,500	(5,832)
Engineering fees	18,503	19,200	697
Bookkeeping fees	16,150	16,150	-
Audit fees	11,000	10,750	(250)
Tax appraisal/collection fees	2,268	2,700	432
Public notice	626	-	(626)
Other consulting fees	8,000	-	(8,000)
Insurance	1,815	2,500	685
Other	2,120	2,020	(100)
Capital outlay	675,382	-	(675,382)
<b>TOTAL EXPENDITURES</b>	<u>888,168</u>	<u>203,190</u>	<u>(684,978)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(316,539)	<u>\$ 318,109</u>	<u>\$ (634,648)</u>
<b>FUND BALANCE</b>			
Beginning of the year	1,869,469		
End of the year	<u>\$ 1,552,930</u>		

*The accompanying notes are an integral part of this statement.*

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**APPENDIX B**

**FORM OF BOND COUNSEL'S OPINION**

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*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.]*

**KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
UNLIMITED TAX REFUNDING BONDS, SERIES 2019  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,235,000**

**AS BOND COUNSEL FOR KELLY LANE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on November 4, 2019 authorizing the issuance of the Bonds and the pricing certificate of the pricing officer as authorized in the order (collectively, the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.



**IT IS FURTHER OUR OPINION** that, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Sufficiency Certificate of Specialized Public Finance, Inc., and assume compliance by the District with certain representations and covenants, regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.



**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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**APPENDIX C**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES