

**OFFICIAL STATEMENT DATED MARCH 3, 2020**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The District has designated the Bonds as "qualified tax-exempt obligations." See "TAX MATTERS – Qualified Tax-Exempt Obligations."

**NEW ISSUE – Book-Entry-Only**

**RATINGS:** S&P (Underlying)....."BBB-"  
 S&P (Insured) ..... "AA"  
 See "MUNICIPAL BOND RATING AND  
 MUNICIPAL BOND INSURANCE RATING" herein

**\$3,250,000**

**GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 44**

(A Political Subdivision of the State of Texas, located within Galveston County)

**UNLIMITED TAX BONDS, SERIES 2020**

Dated: March 31, 2020

Due: September 1, as shown below

The Galveston County Municipal Utility District No. 44 (the "District") is issuing its Unlimited Tax Bonds, Series 2020 (the "Bonds") in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest accrues from March 31, 2020, and is payable on September 1, 2020 and each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check or draft, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the bond register kept by the Paying Agent/Registrar (the "Registered Owners") on the fifteenth day of the month prior to each Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

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 as described herein. See "THE BONDS – Book-Entry-Only System."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS**

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 36423B (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 36423B (b)
2021	\$110,000	2.000%	0.950%	GU6	2029(c)	155,000	2.000%	1.500%	HC5
2022	120,000	2.000%	0.970%	GV4	2030(c)	170,000	2.000%	1.650%	HD3
2023	120,000	2.000%	1.000%	GW2	2031(c)	175,000	2.000%	1.750%	HE1
2024	130,000	2.000%	1.050%	GX0	2032(c)	180,000	2.000%	1.850%	HF8
2025	135,000	2.000%	1.100%	GY8	2033(c)	190,000	2.000%	1.950%	HG6
2026(c)	140,000	1.000%	1.350%	GZ5	2034(c)	200,000	2.000%	2.000%	HH4
2027(c)	145,000	1.250%	1.450%	HA9	2035(c)	205,000	2.000%	2.050%	HJ0
2028(c)	150,000	2.000%	1.400%	HB7					

**\$445,000 Term Bonds due September 1, 2037 (c) (e) Interest Rate 2.000% (a) Initial Yield 2.100% (d) CUSIP No. 36423BHL5**

**\$480,000 Term Bonds due September 1, 2039 (c) (e) Interest Rate 2.000% (a) Initial Yield 2.150% (d) CUSIP No. 36423BHN1**

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 98.155737% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 2.112617%.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global market intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers.
- (c) Bonds maturing on September 1, 2026, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Redemption Provisions." The yield on Bonds maturing on and after September 1, 2026 is calculated to the lower of yield to first optioned call date or maturity.
- (d) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Initial Purchaser (hereinafter defined), and may subsequently be changed.
- (e) In addition to being subject to optional redemption, as described above, the Term Bonds (as hereinafter defined) are also subject to mandatory redemption on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions"

The Bonds, when issued, will constitute valid and legally binding obligations of Galveston County Municipal Utility District No. 44 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Galveston County, the City of League City or any entity other than the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

The Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and by Smith, Murdaugh, Little & Bonham, LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the District by Bracewell LLP, Houston, Texas, Disclosure Counsel. The Bonds are expected to be available for delivery on March 31, 2020 in Houston, Texas.

## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from RBC Capital Markets, LLC, 609 Main St, Suite 3600, Houston, Texas 77002, the Financial Advisor to the District.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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

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

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## INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Galveston County Municipal Utility District No. 44 (the “District”) of its Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and pursuant to an order (the “Bond Order”) adopted by the Board of Directors of Galveston County Municipal Utility District No. 44 (the “District”), a political subdivision of the State of Texas.

The Official Statement includes descriptions of the Bonds, the Bond Order, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request.

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the initial purchaser of the Bonds (the “Initial Purchaser”) prior to the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term “public” shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified on the cover page. Information concerning reoffering yields or prices is the sole responsibility of the Initial Purchaser.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME-TO-TIME BY THE INITIAL PURCHASER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

**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. Particularly, the reader should refer to indicated sections for more complete information on the discussed topic.

- The District..... Galveston County Municipal Utility District No. 44 (the “District”), a political subdivision of the State of Texas, created by an Order of the Texas Commission on Environmental Quality (“TCEQ”), dated August 10, 2004, is located wholly within the City of League City’s corporate limits. The District is approximately 30 miles southeast of downtown Houston and generally bounded on the east by Tuscan Lakes Boulevard, on the south by FM 646 and on the west by Dickinson Avenue. The District operates under Chapter 54 and Chapter 49 of the Texas Water Code, and other general statutes of Texas applicable to municipal utility districts. See “THE DISTRICT.”
- The Issue..... \$3,250,000 Galveston County Municipal Utility District No. 44 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are issued pursuant to an order of the District’s Board of Directors (the “Bond Order”). The Bonds aggregate to a principal amount of \$3,250,000, and mature on the dates and in the amounts shown on the cover page hereof. Bonds maturing on September 1, 2026, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. In addition, the term bonds scheduled to mature on September 1, 2037 and September 1, 2039 are subject to mandatory redemption as provided herein. See “THE BONDS – Redemption Provisions.” Interest on the Bonds is payable on each March 1 and September 1 beginning September 1, 2020. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount. See “THE BONDS.”
- Book-Entry-Only..... The Bonds are initially issuable in book-entry-only form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, which will act as securities depository. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. See “THE BONDS - Book-Entry-Only System.”
- Tax-Exemption..... In the opinion of Smith, Murdaugh, Little & Bonham, LLP, Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and the Bonds are not subject to the alternative tax on individuals. See “TAX MATTERS” herein for a discussion of Bond Counsel’s opinions.
- Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. The Bonds are obligations of the District, and are not obligations of the State of Texas, Galveston County, the City of League City, Texas, or any entity other than the District. In addition, property owners of the District will also pay an ad valorem tax to political subdivisions having jurisdiction over land within the District. See “THE BONDS - Source of Payment.”
- Use of Proceeds..... Proceeds from the sale of the Bonds will be used to finance the following projects: 1) water, sewage and drainage improvements (“WSD”) to Serve Tuscan Lakes Section 50-5; 2) WSD to Serve the Village at Tuscan Lakes Section 3-2; 3) WSD to Serve Tuscan Lakes Sections 55-1 and 60-1; 4) Engineering Fees; 5) Geotechnical Fees; 6) Surveying Fees; 7) Stormwater Consultation Fees; 8) Miscellaneous Fees; and 9) to pay for costs related to the issuance of the Bonds.
- Authorized but Unissued Bonds..... After the issuance of the Bonds, the District will have (i) \$40,505,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities authorized but unissued, (ii) \$4,000,000 principal amount of unlimited tax park bonds for the park and recreational facilities and (iii) \$33,005,000 principal amount of unlimited tax refunding bonds authorized but unissued. See “THE BONDS - Issuance of Additional Debt.”

Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS - Qualified Tax-Exempt Obligations.”
Municipal Bond Rating and Insurance.....	<p>S&amp;P Global Ratings, a business unit of Standard &amp; Poor’s Financial Services LLC (“S&amp;P”) has assigned its municipal bond ratings of “AA” to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE”).</p> <p>Additionally, S&amp;P’s has assigned the Bonds an underlying rating of “BBB-.” An explanation of the significance of such ratings may be obtained from and S&amp;P. These ratings reflect only the views of S&amp;P, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if in the sole judgment of S&amp;P circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds.</p> <p>Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.</p> <p>See “MUNICIPAL BOND INSURANCE” and “MUNICIPAL BOND RATING.”</p>
Status of Development..	The District encompasses approximately 436.929 acres of which approximately 237.8 acres have been developed with water, sanitary sewer, and drainage facilities. Single family residential development within the District as of February 4, 2020 consists of 843 platted lots comprised of 819 occupied single-family homes, 9 homes in various stages of construction, 7 existing model or spec homes, and 8 vacant lots. There is also a 206-unit apartment complex located within the District. Commercial development within the District consists of an LA Fitness, a retail shopping center, a CVS Pharmacy, a Children's Learning Adventure, a JSC Federal Credit Union, a lube oil change place and a Valero gas station. (See “THE DISTRICT – Status of Development”)
Developer .....	The principal developer of land within the District is Kenwood Investments, L.P., dba Tuscan Lakes Development, L.P., a Texas limited partnership, (“Tuscan Lakes Development”), the sole general partner of which is Tuscan Lakes GP, L.L.C., a Texas limited liability company (“Tuscan Lakes GP”). Tuscan Lakes Investors I, L.P., a Texas limited partnership, affiliated with Tuscan Lakes Development, the general partner of which is Tuscan Lakes GP, is a major landowner in the District in the area known as Tuscan Lakes. Centex Homes (“Centex”), a Nevada general partnership, acquired 105 acres within the District, which was developed as the single family age 55+ active adult community of The Village at Tuscan Lakes. Centex was acquired by Pulte Homes of Texas, L.P., a Texas limited partnership (“Pulte Homes”). Pulte Homes has developed 358 homes and has no immediate plans for further development at this time. See “THE DEVELOPER.”
Homebuilders within the District .....	The homebuilder active within Tuscan Lakes is Westin. Westin offers an array of designs in the community, priced from the \$250,000’s.
The Village at Tuscan Lakes .....	The Village at Tuscan Lakes is a gated community with single-family homes for age-qualified 55+ adults, offering a resort setting. This lifestyle community offers nine floor plans ranging from 1,500 to over 2,600 square feet. See “THE DISTRICT – Homebuilders.”

Payment Record..... The District has never defaulted in the payment of principal or interest on its previously issued bonds. See “SELECTED FINANCIAL INFORMATION - Total Outstanding Bonds.”

Legal Opinion..... Smith, Murdaugh, Little & Bonham, LLP, Houston, Texas, Bond Counsel.

Disclosure Counsel..... Bracewell LLP, Houston, Texas.

Engineer..... LJA Engineering, Inc., Houston, Texas.

Financial Advisor ..... RBC Capital Markets, LLC, Houston, Texas.

THE BONDS INVOLVE CERTAIN RISK FACTORS, AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

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**SELECTED FINANCIAL INFORMATION SUMMARY**  
**(Unaudited as of December 31, 2019)**

2019 Certified Assessed Valuation.....	\$239,642,514	(a)
Estimated Assessed Valuation at January 1, 2020.....	\$273,818,004	(b)
Direct Debt Outstanding (after issuance of the Bonds) .....	\$25,415,000	
Estimated Overlapping Debt.....	\$22,690,855	
Direct Debt and Estimated Overlapping Debt .....	\$48,105,855	
Direct Debt Ratios:		
as a percentage of 2019 Certified Assessed Valuation (\$239,642,514).....	10.61%	
as a percentage of Estimated Assessed Valuation at January 1, 2020 (\$273,818,004).....	9.28%	
Direct and Estimated Overlapping Debt Ratios:		
as a percentage of 2019 Certified Assessed Valuation (\$239,642,514).....	20.07%	
as a percentage of Estimated Assessed Valuation at January 1, 2020 (\$273,818,004).....	17.57%	
Debt Service Fund Balance (as of January 7, 2020).....	\$1,889,374	(c)
Capital Projects Fund Balance (as of January 7, 2020) .....	\$ 650,712	
General Fund Balance (as of January 7, 2020).....	\$ 216,099	
2019 Tax Rate		
Maintenance & Operations.....	\$0.07	
Debt Service .....	<u>0.73</u>	
	\$0.80	
Average Annual Debt Service Requirements (2020 - 2039)		
of the Bonds (“Average Annual Requirement”).....	\$1,799,018	
Tax rate required to pay Average Annual Requirement based upon		
2019 Certified Assessed Valuation at 95% collections .....	\$0.80	
Tax rate required to pay Average Annual Requirement based upon		
Estimated Assessed Valuation at January 1, 2020 at 95% collections .....	\$0.70	
Maximum Annual Debt Service Requirements (2039)		
of the Bonds (“Maximum Annual Requirement”) .....	\$1,902,794	
Tax rate required to pay Maximum Annual Requirement based upon		
2019 Certified Assessed Valuation at 95% collections .....	\$0.84	
Tax rate required to pay Maximum Annual Requirement based upon		
Estimated Assessed Valuation at January 1, 2020 at 95% collections .....	\$0.74	
Estimated District Population .....	2,153	(d)

- (a) As certified by the Galveston Central Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for information purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2020 and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2019, through January 1, 2020. Moreover, this estimate is prior to any protests and the ultimate assessed valuation of any improvements added from January 1, 2019 through December 31, 2019, which will be placed on the District’s 2020 tax roll, may vary significantly from such estimate once the Appraisal District Review Board certifies the value thereof in 2020. See “TAXING PROCEDURES.”
- (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District’s debt service fund.
- (d) Based upon 2.0 residents per occupied single family home and 2.5 residents per multi-family unit, which at February 4, 2020 totaled 1,638 and 515, respectively.



## OFFICIAL STATEMENT

relating to

\$3,250,000

### GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 44

(A political subdivision of the State of Texas located within Galveston County, Texas)

### Unlimited Tax Bonds

Series 2020

## INTRODUCTION

The Official Statement provides certain information in connection with the issuance by the Galveston County Municipal Utility District No. 44 (the “District”) of its Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, an order of the Texas Commission on Environmental Quality (the “TCEQ”), an election held within the District and an order (the “Bond Order”) adopted by the Board of Directors of the District, a political subdivision of the State of Texas located within Galveston County, Texas.

The Official Statement includes descriptions of the Bonds, the Bond Order, and certain information about the District and its financial condition and about the developer of land in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request.

## RISK FACTORS

### General

The Bonds are obligations of the District and are not obligations of the State of Texas, Galveston County, the City of League City or any other entity. The Bonds, equally and ratably with future bonds, are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See “THE BONDS - Source of Payment.” The investment quality of the Bonds depends on the ability of the District to collect from the property owners all taxes levied against their property or, in the event of foreclosure, the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. See “Registered Owners’ Remedies” and “Tax Collections” below.

### Factors Affecting Taxable Values and Tax Payments

**Risk from Weather Events:** The District is located in the Texas Coastal Plain, and is subject to occasional severe weather events, including floods, tropical storms and hurricanes. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. If a hurricane (or any other natural disaster) destroyed all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or increase in the tax rate. There can be no assurance that a casualty loss will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

**Economic Factors and Interest Rates:** The rate of development of the District is primarily related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices and consumer demand. Decreased levels of home construction activity tend to restrict the growth of property values in the District.

Interest rates have a direct impact on the level of housing construction activity. Long-term rates affect a home purchaser’s ability to qualify for and to afford the total financing costs of a new home. High long-term interest rates may negatively affect home sales and the rate of growth of taxable property values in the District. Further, the short-term interest rates at which developers and builders are able to obtain financing for development and building costs may affect the developers’ or builders’ ability or willingness to complete development or building plans.

**Nature of a Portion of the District Development and Over 65/Disabled Exemption:** A portion of the District (105 acres) has been developed as the Villages at Tuscan Lakes, an active adult/retirement community with home ownership restricted to purchasers age 55 or older. Pursuant to Texas law, the District may by its own action, exempt \$3,000 or more of the residential homestead value of persons sixty-five (65) years or older or disabled. For tax year 2019, the District granted an exemption of \$12,000 for persons 65 years of age or older and certain disabled persons. Such exemption is to be considered annually, and once authorized may be repealed, decreased or increased by the Board or by a process of petition and referendum. The District may be required to offer such exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard such exemption if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Any tax exemption reduces the taxable value and a reduction in taxable value would likely result in an increase in the tax rate of the District. Granting such an exemption could affect the District's ability to issue bonds in the future.

Additionally, pursuant to Texas law, the owner of the residential homestead property who is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of the taxes on a residential homestead in installments or to defer the payments of the taxes without penalty during the time of ownership if the resident files an affidavit with the Galveston County Appraisal District. Such deferral prohibits the filing of a lawsuit to collect delinquent taxes until such time as the taxpayer no longer owns and occupies the property as a residence homestead. Taxes and interest continue to accrue against the property and the lien securing such taxes and interest remains in existence during the deferral or abatement period. Because one hundred and five (105) acres of the District has been developed as an active adult/retirement community and, as such, a substantial proportion of the property owners within the District are likely over 65 years of age or older, it is possible the deferrals and payment installments could significantly delay the collection of property taxes pledged for the payment of principal and interest on the Bonds. A significant amount of deferrals and split payments could require a tax rate increase to compensate for the loss of timely tax revenue needed for the payment of debt service annually, which could decrease the values of residence in the District and affect the District's ability to issue bonds in the future. See "TAXING PROCEDURES – Property Subject to Taxation" and "Levy and Collection of Taxes."

**Competitive Nature of Residential Housing Market:** The housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer (hereinafter defined) or other major property owner will be implemented or completed. The competitive position of the Developer or other major property owner in the sale of improved lots to builders or in the construction of single-family residential units by the builders is affected by most of the factors discussed in this "RISK FACTORS" section, and such competitive position is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

**Maximum 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 District property owners to pay their taxes. The 2019 Certified Assessed Valuation of the District is \$239,642,514 and the Estimated Assessed Valuation at January 1, 2020, is \$273,818,004 (see "SELECTED FINANCIAL INFORMATION"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,902,794 (2039), and the Average Annual Debt Service Requirement, on a calendar year basis, will be \$1,799,018 (2020 through 2039, inclusive). Assuming no increase or decrease from the 2019 Certified Assessed Valuation and no use of funds on hand, a debt service tax rate of \$0.84 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.80 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. Assuming no increase or decrease from the Estimated Assessed Valuation at January 1, 2020 and no use of funds on hand, a debt service tax rate of \$0.74 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.70 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See "DEBT SERVICE SCHEDULE" and "SELECTED FINANCIAL INFORMATION - Tax Adequacy for Debt Service." No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of January 1, 2020 will be the amounts finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES." While the District anticipates future development and increases in taxable values, it makes no representations that such development will actually occur or that over the term of the Bonds, the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. Property within the District also is subject to taxes levied by other political subdivisions. See "SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt Statement."

**Developers' Obligations to the District:** There is no commitment by or legal requirement of the Developer, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "THE DISTRICT – Status of Development" and "THE DEVELOPER."

### **Recent Extreme Weather Events; Hurricane Harvey**

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. Hurricane Harvey made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the City of League City, the District experienced no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer (hereinafter defined), the District's system did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

### **Specific Flood Type Risks**

#### **Ponding (or Pluvial) Flood:**

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

#### **Riverine (or Fluvial) Flood:**

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

### **Coastal (or Storm Surge) Flood:**

Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

### **Tax Collections**

The District's ability to make debt service payments on the Bonds 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 state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two years of foreclosure. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District will become highly fragmented among a large number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. 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 against such taxpayer.

### **Registered Owners' Remedies**

Pursuant to Texas law, the Bond Order provides that if the District defaults in the payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions or obligations set forth in the Bond Order, then the registered owners of the Bonds (the "Registered Owner(s)") shall be entitled to seek a writ of mandamus from a court of proper jurisdiction to compel the District to perform its obligations or levy adequate taxes to make principal or interest payments on the Bonds. Such remedy would have to be exercised upon each separate default and may prove costly, time-consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, to protect the interests of the bondholders, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, the Registered Owners. The Bond Order does not provide for acceleration of maturity of the Bonds upon any default; consequently, the remedy of mandamus may have to be relied upon from year to year. Texas courts have held that districts such as the District are immune from suits for money damages under the doctrine of sovereign immunity. Further, if a judgment in such a suit could be obtained, such a judgment could not be enforced by a 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 rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditor's rights generally. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of the registered owners may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code if the District: (1) is generally authorized to file for federal bankruptcy protection by 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 negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debt and other obligations as they mature.

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

### **Marketability**

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

### **Changes in Tax Legislation**

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

### **Continuing Compliance with Certain Covenants**

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

### **Environmental and Air Quality Regulation**

#### **Environmental Regulations**

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

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

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

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston area ("HGB area")—Harris, Galveston, Harris, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 ("the 1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in

2008 ("the 2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 ("the 2015 Ozone Standard"). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area "anti-backsliding" requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ's "redesignation substitute" for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a "moderate" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Harris, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a state implementation plan ("SIP") for the HGB area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB area's economic growth and development.

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

Certain governmental entities regulate groundwater usage in the HGB Area. A municipal utility district or other type of special purpose district that (i) is located with the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

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 nonstormwater 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.

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the United States Army Corps of Engineers ("USACE") if operations of the District require that wetlands be filled, dredged or otherwise altered.

In 2015, the EPA and the United States Army Corps of Engineers ("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 expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, causing significant uncertainty.

On December 11, 2018 the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six 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 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 and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. The District may be subject to additional restrictions and requirements including permitting requirements.

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## SOURCES AND USES OF FUNDS

The proceeds of Bonds will be used to finance the following projects: 1) water, sewage and drainage improvements (“WSD”) to Serve Tuscan Lakes Section 50-5; 2) WSD to Serve the Village at Tuscan Lakes Section 3-2; 3) WSD to Serve Tuscan Lakes Sections 55-1 and 60-1; 4) Engineering Fees; 5) Geotechnical Fees; 6) Surveying Fees; 7) Stormwater Consultation Fees; 8) Miscellaneous Fees; and 9) to pay for costs related to the issuance of the Bonds.

<b>Construction Costs</b>	<b>District's Share</b>
<b>A. Developer Contribution Items</b>	
1. WSD to Serve Tuscan Lakes Section 50-5	\$ 194,750
2. WSD to Serve the Village at Tuscan Lakes Section 3-2	766,230
3. WSD to Serve Tuscan Lakes Sections 55-1 and 60-1	839,716
4. Engineering for All Items	206,034
5. Geotechnical for All Items	41,421
6. Surveying for All Items	5,991
7. Stormwater for All Items	37,786
8. Miscellaneous for All Items	171
<b>Total Developer Contribution Items</b>	<b>\$ 2,092,099</b>
<b>B. District Items</b>	
1. City of League City Capital Recovery Fees	\$ 343,674
<b>Total District Items</b>	<b>\$ 343,674</b>
<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$ 2,435,773</b>
<b>Non-construction Costs</b>	
A. Legal Fees (2.96%)	\$ 96,250
B. Fiscal Agent Fees (2.00%)	65,000
C. Interest	
a. Capitalized Interest (12 months @ 5.0%)	61,798
b. Developer Interest	309,862
D. Bond Discount	59,939
G. Bond Issuance Expenses	31,740
H. Bond Application Report	40,000
I. Attorney General Fees (0.10%)	3,250
J. TCEQ Bond Issuance Fee (0.25%)	8,125
K. Contingency	138,264
<b>TOTAL NON-CONSTRUCTION COSTS</b>	<b>\$ 814,227</b>
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$ 3,250,000</b>

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for other uses approved by the TCEQ, including payment for other projects. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay for the costs of the above described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.



## THE BONDS

### General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated March 31, 2020, and will mature on the dates and in the amounts shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. Interest on the Bonds is payable on each March 1 and September 1 (“Interest Payment Date”), beginning September 1, 2020. The Bonds will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple of \$5,000.

### Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid through Zions Bancorporation, National Association, Houston, Texas, the initial Paying Agent/Registrar. Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new registrar shall act in the same capacity as the previous paying agent/registrar. Any new paying agent/registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or of any State, and authorized under such laws to perform the duties of paying agent and registrar for 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 Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](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 the Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to Cede & Co. 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 Issuer as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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 nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered. Discontinuation of the Book-Entry-Only-System by the District may require Participant approval under DTC operational arrangements.

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

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

### *Effect of Termination of Book-Entry Only System*

In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Order and summarized under “THE BONDS - Transfer, Exchange and Registration” below. Discontinuance by the District of the DTC System of book-entry-only transfers may require the consent of DTC Participants under DTC Operational Arrangements.

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Initial Purchaser.

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied, and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Galveston County, the City of League City, Texas, or any entity other than the District.

### **Authority for Issuance**

The Bonds are issued pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code, as amended, and the Bond Order. The projects to be financed with the proceeds of the Bonds, and the issuance of the Bonds for such purpose, was approved by order of the TCEQ. Before the Bonds can be issued the Attorney General of Texas must pass upon the legality of the Bonds. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

At a bond election held within the District on November 2, 2004, the voters authorized issuance of (i) \$67,200,000 principal amount of unlimited tax bonds for the water, sewer, and drainage facilities, (ii) \$4,000,000 principal amount of unlimited tax bonds for parks and recreational facilities, and (iii) \$33,600,000 principal amount of unlimited tax bonds for refunding purposes. Including refunding issues, the Bonds constitute the seventh issuance of bonds. After sale of the Bonds, a total of \$40,505,000 in principal amount of unlimited tax bonds for water, sewer, and drainage facilities will remain authorized but unissued. See “Issuance of Additional Debt” below.

### **Funds**

In the Bond Order, the District confirms the debt service fund. The proceeds from all taxes levied, assessed and collected for and on account of the Bonds shall be deposited, as collected, in the District’s debt service fund and used only for the purpose of paying principal of and interest on the Bonds.

## No Arbitrage

The District will certify as of the date of delivery of the Bonds that, based upon all facts and estimates then known or reasonably expected to be in existence on the date the Bonds are delivered, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Moreover, the District will covenant that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including without limitation, calculating the yield on the Bonds as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

## Redemption Provisions

*Optional Redemption:* The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or any date thereafter, at a price of par 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 shall be determined by the District. If less than all of 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). If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000.

*Mandatory Redemption:* The Bonds due on September 1 in the years, 2037 and 2039 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

Term Bonds Due September 1, 2037	
Mandatory Sinking Fund Redemption Date	Principal Amount
September 1, 2036	\$220,000
September 1, 2037 (maturity)	225,000

Term Bonds Due September 1, 2039	
Mandatory Sinking Fund Redemption Date	Principal Amount
September 1, 2038	\$235,000
September 1, 2039 (maturity)	245,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Order. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

*Provision Applicable to All Redemptions:* Notice of any redemption identifying the Bonds to be redeemed in whole or from time-to-time in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or from time-to-time in part at the address shown on the register.

Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be

redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or from time-to-time in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Transfer, Exchange and Registration**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Paying Agent/Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

In the event the Book-Entry-Only System is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond.

### **Replacement of Bonds**

In the event the Book-Entry-Only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity to hold them harmless. The District or the Paying Agent/Registrar may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT – Authority for Issuance.” After the issuance of the Bonds, the District will have (i) \$40,505,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities authorized but unissued, (ii) \$4,000,000 principal amount of unlimited tax park bonds for the park and recreational facilities and (iii) \$33,005,000 principal amount of unlimited tax refunding bonds authorized but unissued. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District. See “RISK FACTORS.”

In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes, and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such contracts, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds without additional voter approval.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purposes by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. Fire protection to the District is provided by the City of League City.

## **Consolidation and Dissolution**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

The City of League City has the right to abolish and dissolve the District and to acquire the District’s assets and assume the District’s obligations in accordance with state law, subject, however to the terms of the Utility Service Agreement between the District and the City of League City. See “UTILITY SERVICE AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY.” If any of the Bonds are outstanding at the time of dissolution, the payment of such Bonds becomes the obligation of the City.

## **Remedies in Event of Default**

Pursuant to Texas law, the Bond Order provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Order, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests 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 the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further 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. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners.

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

Pursuant to the Texas Bond Procedures Act, Chapter 1201, Texas Government Code, as amended, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

### **Defeasance**

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

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

## **THE DISTRICT**

### **General**

The District was created by order of the TCEQ, dated August 10, 2004, and by a confirmation election held within the District on November 2, 2004, and operates under Chapters 49 and 54 of the Texas Water Code and other general laws of the State of Texas applicable to municipal utility districts.

At the time of the confirmation election, the District encompassed 435.429 acres. On February 20, 2007, 1.50 acres were annexed to the District, increasing the total acreage to 436.929 acres.

### **Location**

The District is a political subdivision of the State of Texas, located wholly within the City of League City's corporate limits, approximately 30 miles southeast of downtown Houston. The District is generally bounded on the east by Tuscan Lakes Boulevard, on the south by FM 646 and on the west by Dickinson Avenue. The District lies entirely within the boundaries of the Dickinson Independent School District.

### **Authority**

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; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District has no plans to provide a fire department. The District is also empowered to establish parks and recreational facilities for the residents of the District.

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## Status of Development

The following chart more completely describes the status of single family residential development within the District as of February 3, 2020:

	<u>Number of Lots</u>	<u>Acreage</u>	<u>Completed Homes</u>	<u>Under Construction</u>	<u>Vacant Lots</u>
<b>Village at Tuscan Lakes</b>					
Section 1	93	19.1	93	0	0
Section 2-2	14	2.3	14	0	0
Section 2-3	53	10.3	53	0	0
Section 3-1	19	6.6	19	0	0
Section 3 Phase 2	86	22.3	86	0	0
Section 4-1	42	8.3	42	0	0
Section 4-2	<u>51</u>	<u>11.2</u>	<u>51</u>	<u>0</u>	<u>0</u>
	358	80.1	358	0	0
<b>Tuscan Lakes</b>					
Section 50-1 SE	84	20.7	84	0	0
Section 50-3-1	31	6.4	31	0	0
Section 50-3-2	19	5.8	19	0	0
Section 50-4-1	24	4.7	24	0	0
Section 50-4-2	24	4.8	24	0	0
Section 55-1 & 60-1 SE	61	27.4	58	0	3
Section 50-5 SE	35	11.7	35	0	0
Section 55-2 & 60-2	62	19.6	62	0	0
Section 55-3 & 60-3	92	35.8	83	7	2
Section 55-4 SE	4	1.35	1	0	3
Section 55-5 SE	4	2.97	3	1	0
Section 50-6	<u>45</u>	<u>15.2</u>	<u>44</u>	<u>1</u>	<u>0</u>
	485	156.4	468	9	8
<b>Total</b>	<u>843</u>	<u>236.5</u>	<u>826</u>	<u>9</u>	<u>8</u>

Approximately 14.7 acres are currently developed for multi-family use. A 206-unit apartment complex, Grand Villas at Tuscan Lakes, is also located in the district.

Approximately 21 acres are currently developed for commercial use. An 83,700 square foot retail shopping center anchored by LA Fitness is open in the District. Additional commercial development within the District consists of two retail shopping centers, a CVS Pharmacy, a Children's Learning Adventure, a JSC Federal Credit Union, a Valero gas station, and an Express Oil. Additional development within the District includes the City of League City Hometown Heroes Park.

### Homebuilders

**Tuscan Lakes:** The homebuilder active within Tuscan Lakes is Westin. Westin offers an array of designs in the community, priced from the \$250,000's.

**The Village at Tuscan Lakes:** The Village at Tuscan Lakes is a gated community with single-family homes for age-qualified 55+ adults, offering a resort setting. This lifestyle community offers nine floor plans ranging from 1,500 to over 2,600 square feet. Homes in The Village at Tuscan Lakes are priced from the \$140,000's to the \$300,000's.

### Future Development

There remains 27.60 acres of developable land for commercial purposes in the District. Approximately 171.5 acres in the District are undevelopable. The District can make no representation that any future development will occur within the District. In the event that future development does occur in the District, it is anticipated that reimbursement of the development costs will be financed through the sale of future bond issues.

### Community Facilities

**Churches:** Churches of most major denominations are located in League City. The Watershed Methodist Church owns 11 acres in the District.

*Employment Centers:* Local employment centers near the District are located in League City, Dickinson, and Galveston and in Houston adjacent to Clear Lake. Significant employment centers located in the area include National Aeronautics and Space Administration (“NASA”) located on the northwest shore of Clear Lake approximately 5 miles from the District; Bayport Industrial Complex located some 12 miles northeast of the District, home to over 40 industrial companies; industrial and chemical plants in the Texas City area located approximately 10 miles south of the District; Ellington Airport, a public and military use airport located approximately 10 miles northwest of the District; chemical, petrochemical, and other large industries located in Pasadena, Deer Park, and Baytown, from 5 to 15 miles from the District.

*Fire and Police Protection:* League City provides ambulance service, fire and police protection.

*Medical Facilities:* Columbia Clear Lake Regional Medical Center, a privately-owned hospital offering 24-hour emergency service, is located some six miles northwest of the District and Methodist Clear Lake Hospital is located on NASA Road 1 approximately 5 miles north of the District. In addition, Mainland Center Hospital is located in Texas City approximately 10 miles south of the District.

*Recreational Facilities:* Recreation facilities in the District are available to residents in the District. These facilities include a recreation complex, including a swimming pool with a children’s splash play area and an elaborate playground area. The City of League City owned "Hometown Heroes Park" is located at the southwest corner of the District. This park was developed with Type B Sales Tax funds contributed by the City of League City’s Type B economic developed corporations and includes 2 indoor gymnasiums, and meeting and exercise rooms. The park grounds provide for walking, jogging, and passive recreation, and includes 2 lighted soccer fields and abundant parking on land provided by Tuscan Lakes Development, L.P. Additionally, there are numerous outdoor recreational areas located in close proximity to the District, including the Chester L. Davis Sportsplex and League City’s Big League Dreams Sports Complex which offer numerous ball fields along with other sporting venues, Clear Lake and Galveston Bay which offer a variety of water sports and marinas, and Armand Bayou which offers nature hikes and birding opportunities. There are approximately 15 public or private golf courses located within a short drive of the District.

The Village at Tuscan Lakes is a gated community with single-family homes for age-qualified 55+ adults, offering a resort setting. A 9,000 square foot recreation center is available to The Village at Tuscan Lakes residents with a number of amenities for an active lifestyle.

*Schools:* The District is located in Dickinson Independent School District which provides bus service to students living over two miles from their school campus. Students in the District attend the following Dickinson Independent School District Schools:

**Approximate  
Distance from  
School District**

Silbernagel Elementary.....	1 Mile
Dunbar Middle.....	1 Mile
Dickinson High.....	3 Miles

*Shopping Facilities:* Neighborhood shopping facilities, including such retail establishments as supermarkets, pharmacies, restaurants and retail outlets, are available in League City outside the boundaries of the District. The nearest regional shopping center, Baybrook Mall, is located on IH 45 approximately seven miles northwest of the District. The mall recently expanded from 150 to 186 stores, including 4 anchor tenant department stores. HEB and Kroger grocers are located within 1 mile of the District at the intersection of South Shore Blvd. and League City Parkway. Other retail includes a Target Super Store, a Home Depot, a Lowes and a Walmart.

## **THE DEVELOPER**

### **Role of a Developer**

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone and electric distribution) and selling improved lots and commercial reserves to builders, developers, or other third parties. In certain instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a municipal utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

### **Tuscan Lakes Development, L.P.**

The principal developer of land within the District is Kenwood Investments, L.P., dba Tuscan Lakes Development, L.P., a Texas limited partnership, as successor by merger with Tuscan Lakes Development II, L.P. ("Tuscan Lakes Development" or the "Developer"). The sole general partner of Tuscan Lakes Development is Tuscan Lakes GP, L.L.C., a Texas limited liability company ("Tuscan Lakes GP"). A major landowner in the District is Tuscan Lakes Investors I, L.P. ("Tuscan Lakes Investors"), a Texas limited partnership, as successor by merger with Tuscan Lakes Investors II, L.P. The general partner of Tuscan Lakes Investors is Tuscan Lakes GP. Tuscan Lakes Investors is affiliated with Tuscan Lakes Development.

In July, 2003, Tuscan Lakes Development acquired approximately 439 acres, including all of the land within the District. Of such acreage acquired, approximately 330 acres was to be developed as single family residential subdivisions. In May, 2004, 108.38 acres were contributed to Tuscan Lakes Investors II, L.P., which is now known as Tuscan Lakes Investors, to be held for investment and sold to third parties for development as commercial, offices and townhomes. The land held by Tuscan Lakes Development and Tuscan Lakes Investors is located in the approximately 870-acre community known as Tuscan Lakes, which is located in the District and a second municipal utility district, Galveston County Municipal Utility District No. 43.

In addition to the land developed by Tuscan Lakes Development, Tuscan Lakes Investors currently owns approximately 36.5 acres in the District all of which has water and sewer facilities service available and is being marketed for retail development.

Tuscan Lakes Development has financed lot development in the District with various loans over the years. All loans have been paid off.

The development of the Tuscan Lakes project is being managed by an affiliate of The Johnson Development Corp. Larry D. Johnson, President of The Johnson Development Corp., has over 41 years of experience in real estate development. Mr. Johnson's real estate activities have included over 100 projects resulting in the development of nearly 40,000 acres of multiple-use commercial parks, office buildings, retail centers, residential subdivisions, master planned golf course communities and multi-family housing. In the Houston metropolitan area, Mr. Johnson's developments include Atascocita, Steeplechase, Cross Creek Ranch, Harvest Green, Grand Central, Sienna Plantation, Silverlake, Fall Creek, Riverstone, Tuscan Lakes, Woodforest and Imperial.

### **Pulte Homes**

Pulte Homes of Texas, L.P., a Texas united partnership ("Pulte Homes"), is also a developer of land within the District. Pulte Homes has developed 358 homes in the District and has no immediate plans for further development at this time. Centex Homes, a Nevada general partnership, was acquired by Pulte Homes.

## UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY

All land in the District is located within the city limits of the City of League City ("the City"). Shortly after the District was created, the District approved and ratified a utility agreement with League City dated April 8, 2003 (the "Utility Agreement"). The Utility Agreement obligates the District to acquire, construct, and extend water, sanitary sewer and drainage facilities (the "System") to serve land in the District and, when completed in accordance with approved plans and specifications, the District is required to convey title to such utility facilities to the City. The City then operates and maintains such facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in League City. As specified in the Utility Agreement, the District is a "City Service" district and no rebate of City taxes is required or provided. Terms in this section not otherwise defined herein have the meaning described thereto in the Utility Agreement.

The Utility Agreement's significant provisions relating to issuance of District Bonds (which may be waived by the City) include the following:

- (A) Limitation on the District's Bond Indebtedness.  
The District cannot sell bonds if the ratio of the District's indebtedness to its assessed valuation exceeds 25% during the first 24 months after the Bond Date and 15% thereafter.
- (B) Water, Sewer and Drainage Bonds are required to be issued in series with the minimum limit on each series being \$2,500,000.
- (C) The final maturity of all Bonds issued shall not exceed thirty (30) years from the date of the initial series of Bonds.
- (D) The District shall, as specified herein, obtain the City's approval prior to advertising the sale of its Bonds. Whenever possible, the District's sale of bonds shall be scheduled so as not to conflict with a City sale of Bonds.
- (E) For any Bond issue, the combined projected debt service tax rate, as defined in 30 TAC 293.59 referenced above, shall not exceed \$1.50.
- (F) For each Bond sale, the District shall demonstrate that, at final buildout, the District's net direct debt as a percentage of current and estimated certified assessed value will not exceed ten and one-half percent (10 ½%).
- (G) The District is required to obtain the City's approval prior to the advertisement and sale of Bonds. Whenever the District requests such approval, the District will provide the City with a copy of the Engineering Report and will certify to the City that the District has complied with the above listed requirements.

The Utility Agreement provides that the District retains a security interest in the System to secure The City's performance under the Utility Agreement until all of the District's bonds have been discharged. The District will then execute a release of such security interest, and The City will then own the System free and clear.

The District has agreed to extend the System to serve future users as necessary so that ultimately all land owners in the District will be in a position to receive services from the System; however, the District's obligation to extend the System is conditioned upon the Developer's continuing with its development program, the City performing under the provisions of the Utility Agreement, the satisfaction of certain determinations of economic feasibility, governmental agency approvals and the ability of the District to sell bonds.

## THE SYSTEM

### Regulation

According to the District's Engineer, LJA Engineering, Inc. ("Engineer"), the System has been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City and the Galveston County Drainage District. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the TCEQ.

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

#### *Source of Water Supply:*

Water supply for the City of League City is obtained from three sources: 1) existing groundwater wells; 2) surface water as a participant in the Southeast Water Purification Plant; and 3) surface water from the Gulf Coast Water Authority from the Thomas Mackey Water Purification Plant. Water from these three sources is delivered to the City's nine water plants and from there distributed to retail customers such as the residents of the District.

#### *Source of Wastewater Treatment:*

The District has constructed a lift station, force main and gravity trunk sewer to connect to the City's regional sewer system, which flows to the City's Dallas Salmon Wastewater Plant, its primary wastewater plant. This plant has sufficient capacity to serve the District through build out.

### 100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, none of the developable acreage within the District is located within the 100-year flood plain. Additionally, the District's storm water drainage system has been designed and constructed in accordance with current applicable regulatory standards for a development of this size and location. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments."

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**DISTRICT BONDS AUTHORIZED BUT UNISSUED**

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
November 2, 2004	Water, Sanitary Sewer & Drainage	\$67,200,000	\$26,695,000 (a)	\$40,505,000
November 2, 2004	Recreation Facilities	\$ 4,000,000	\$ 0	\$ 4,000,000
November 2, 2004	Refunding	\$33,600,000	\$ 595,000	\$33,005,000

(a) Includes the Bonds.

**SELECTED FINANCIAL INFORMATION  
(Unaudited as of December 31, 2019)**

2019 Certified Assessed Valuation .....	\$239,642,514 (a)
Estimated Assessed Valuation at January 1, 2020 .....	\$273,818,004 (b)
Direct Debt (including the Bonds).....	\$25,415,000
Ratio of Direct Debt to 2019 Certified Assessed Valuation .....	10.61%
Ratio of Direct Debt to Estimated Assessed Valuation at January 1, 2020 .....	9.28%
Area of District: approx. 437 acres	
Estimated Population: 2,153 (c)	

(a) As certified by the Galveston Central Appraisal District (“Appraisal District”) See “TAXING PROCEDURES.”

(b) Provided by the Appraisal District for information purposes only, this amount is an estimate of the value of all taxable property located within the District as of January 1, 2020 and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2019, through January 1, 2020. Moreover, this estimate is prior to any protests and the ultimate Assessed Valuation of any improvements added from January 1, 2019 through December 31, 2019, which will be placed on the District’s 2020 tax roll, may vary significantly from such estimate once the Appraisal District Review Board certifies the value thereof in 2020. See “TAXING PROCEDURES.”

(c) Based on 2.0 residents per occupied single family home and 2.5 residents per multi-family unit, which at February 4, 2020 totaled 1,638 and 515 residents, respectively.

**Total Outstanding Bonds**

<u>Date of Issue</u>	<u>Series</u>	<u>Original Amount</u>	<u>Amount Outstanding after Issuance of the Bonds</u>
12/01/2009	2009	\$ 3,870,000	\$ 175,000
04/01/2012	2012	3,150,000	2,695,000
07/01/2014	2014	3,500,000	3,090,000
12/01/2016	2016 (a)	3,725,000	3,575,000
04/01/2017	2017	3,675,000	3,480,000
05/01/2018	2018	3,650,000	3,550,000
03/01/2019	2019	5,600,000	5,600,000
03/31/2020	2020 (b)	<u>3,250,000</u>	<u>3,250,000</u>
		\$30,420,000	\$25,415,000

(a) Refunding issue.

(b) The Bonds.

**Cash and Investment Balances (Unaudited at January 7, 2020)**

Debt Service Fund Balance (as of January 7, 2020).....	\$1,889,374 (c)
Capital Projects Fund Balance (as of January 7, 2020) .....	\$ 650,712
General Fund Balance (as of January 7, 2020).....	\$ 216,099

(a) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the debt service fund.

## 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, unless otherwise indicated, from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Body <sup>(a)</sup>	Outstanding Gross Debt	As of	% Overlapping Gross Debt	Overlapping Gross Debt
Dickinson Independent School District	\$303,025,000.00	12/31/2019	5.16%	\$15,636,090
Galveston County	247,913,720.00	12/31/2019	0.63%	1,561,856
League City, City of	239,865,000.00	12/31/2019	2.29%	5,492,909
<b>Total Overlapping Debt:</b>				<b>\$22,690,855</b>
Galveston Co MUD # 44				\$25,415,000 <sup>(b)</sup>
Total Direct and Overlapping Debt:				\$48,105,855
Total Direct and Overlapping Debt % of A.V.:				20.07%

(a) Taxing jurisdictions with outstanding general obligation debt.

(b) Includes the Bonds.

## Overlapping Taxes for 2019

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

Set forth below is an estimation of the taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2019 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions.

Overlapping Entity	2019 Tax Rate per \$100 AV
Dickinson Independent School District	\$ 1.450
Galveston County <sup>(a)</sup>	\$ 0.516
League City, City of	\$ 0.549
The District	\$ 0.800
Total	\$ 3.315

(a) Includes Galveston County and Galveston County Road and Flood.

## Classification of Assessed Valuation

The following represents the composition of property comprising the District's 2016 - 2019 tax rolls:

	<u>2019</u> <sup>(a)</sup>	<u>2018</u> <sup>(b)</sup>	<u>2017</u> <sup>(b)</sup>	<u>2016</u> <sup>(b)</sup>
Land	\$62,198,950	\$61,960,730	\$53,976,050	\$50,696,480
Improvements	193,395,997	172,847,288	149,453,347	114,376,796
Personal Property	4,710,630	3,384,524	3,314,492	2,537,915
Exemptions	<u>(20,663,063)</u>	<u>(18,391,513)</u>	<u>(15,568,696)</u>	<u>(11,660,212)</u>
	<u>\$239,642,514</u>	<u>\$219,801,029</u>	<u>\$191,175,193</u>	<u>\$155,950,979</u>

(a) Provided by the Galveston County Appraisal District.

(b) From the District's 2019 Audited Financial Statements.

## Tax Collections

The following statement of tax collections set forth in condensed form is the tax collection of the District. Such summary has been prepared for inclusion herein based upon information from the District's audited financial statements and the records of the District Tax Assessor/Collector. Reference is made to such records for further and more complete information.

Tax Year	Assessed Valuation (a)	Tax Rate	Levy (a)	Collections as of Tax Year End (a)(b)		Collections Through December 31, 2019		Fiscal Year Ended
				Amount	%	Amount	%	
2014	\$96,053,812	0.80	\$768,431	\$768,081	99.95%	\$767,956	99.99%	06/30/2015
2015	122,136,333	0.80	977,091	975,767	99.86%	976,742	99.99%	06/30/2016
2016	155,443,169	0.80	1,244,147	1,239,320	99.61%	1,243,802	99.94%	06/30/2017
2017	191,632,798	0.80	1,531,605	1,524,349	99.53%	1,530,312	99.66%	06/30/2018
2018	219,801,029	0.80	1,756,994	1,753,917	99.82%	1,755,186	99.90%	06/30/2019
2019	239,642,514	0.80	1,917,140	(c)	(c)	(c)	(c)	06/30/2020

(a) As provided by the District's Tax Assessor/Collector.

(b) Includes debt service and maintenance tax rates.

(c) In the process of collection.

## District Tax Rate

	Tax Year				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt Service	\$0.73	\$0.72	\$0.67	\$0.64	\$0.67
Maintenance & Operation	0.07	0.08	0.13	0.16	0.13
Total	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80

## Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: \$1.25 per \$100 Assessed Valuation.

## Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. An election was held within the District on November 2, 2004, which authorized the levy of a maintenance tax not to exceed \$1.25/\$100 assessed valuation.



**Principal Taxpayers**

The following list of top ten principal taxpayers was provided by the District’s Tax Assessor/Collector based on the 2019 certified tax rolls of the District, which reflect ownership as of January 1 of each year. Ownership changes since January 1, 2020 are not known to the District.

<b>Taxpayer</b>	<b>Property Type</b>	<b>2019 AV</b>	<b>2018 AV</b>
GVTL LLC	Apartments	\$15,244,000	\$14,935,000
Cole LA League City TX LLC	Spa/Gym	3,384,880	3,384,880
Westin Homes & Properties LP	Home Builder	2,530,478	3,394,920
Tuscan Lakes Investors I LP	Home Builder	2,140,300	2,140,300
NWC SH 96/FM 270 Ltd.	Strip Shopping Center	1,861,310	1,861,310
Tuscan Lake Market LLC	Strip Shopping Center	1,848,500	1,848,500
11752 LLC	Day Care Center	1,690,020	1,690,020
Pond Plaza Realty Trust	Pharmacy	1,675,000	1,714,260
Shops at Tuscan Lakes II LLC	Strip Shopping Center	1,575,000	1,575,000
Big Diamond LLC	Gas Station	1,514,360	*
D.R. Horton-Texas Ltd.	Home Builder	*	2,457,050
<b>Total</b>		<b>\$33,463,848</b>	<b>\$35,001,240</b>
Percent of 2019 Certified Assessed Valuation	13.96%		

\* Denotes that the entity was not a principal taxpayer in that year.

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**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Assessed Valuation and utilize tax rates adequate to service the District’s total proposed debt service requirements on the Bonds (estimated at 4.50% per annum). See “RISK FACTORS – Factors Affecting Tax Values and Tax Payments – Maximum Impact of District Tax Rates.”

Average Annual Total Debt Service Requirements (2020 – 2039) (“Average Annual Requirement”).....	\$1,799,018
\$0.80 Debt Service Tax Rate on 2019 Certified Assessed Valuation, of \$239,642,514 at 95% collections produces.....	\$1,821,283
\$0.70 Debt Service Tax Rate on Estimate Assessed Valuation at January 1, 2020 of \$273,818,004 at 95% collections produces.....	\$1,820,890
Maximum Annual Total Debt Service Requirements (2039) (“Maximum Annual Requirement”).....	\$1,902,794
\$0.84 Debt Service Tax Rate on 2019 Certified Assessed Valuation, of \$239,642,514 at 95% collections produces.....	\$1,912,347
\$0.74 Debt Service Tax Rate on Estimate Assessed Valuation at January 1, 2020 of \$273,818,004 at 95% collections produces.....	\$1,924,941

**Debt Service Fund**

Debt Service Requirements for year ending 2020 .....	\$1,570,755 (a)
Debt Service Fund Balance at January 7, 2020 .....	\$1,889,374 (b)
2019 Projected Debt Service Tax Levy @ 95% collections produces .....	\$1,821,283 (c)

- (a) Reflects the 2020 debt service requirements after the issuance of the Bonds. The first interest payment date on the Bonds is September 1, 2020.
- (b) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the debt service fund.
- (c) Based on 2019 Certified Assessed Value at the 2019 debt service tax rate of \$0.73/\$100 assessed valuation.

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## OPERATING STATEMENT

### Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District. System revenues are not pledged to the Bonds, and the operating statement is provided for information purposes only. Such summary has been prepared by the Financial Advisor and bookkeeper for inclusion herein, based upon information obtained from the District's Bookkeeper's reports and audited financial statements.

	Fiscal Year Ended June 30				
	2019(a)	2018(a)	2017(a)	2016(a)	2015(a)
<b>Revenues</b>					
Property Taxes	\$ 176,761	\$ 248,118	\$ 248,036	\$ 158,914	\$ 124,994
Investment Interest Income	5,780	2,758	664	95	27
Total	\$ 182,541	\$ 250,876	\$ 248,700	\$ 159,009	\$ 125,021
<b>Expenditures</b>					
Service Operations:					
Professional Fees	\$ 103,625	\$ 120,712	\$ 130,322	\$ 116,640	\$ 84,688
Contracted Services	13,916	17,035	18,562	15,259	11,911
Other Expenditures	12,490	68,428	19,974	17,465	14,746
Recreational Facilities	7,590	4,220	13,575	59,752	58,749
Capital Outlay	500	1,025	278,332	-	1,548
Debt Service/Debt Issuance Costs	-	40,005	8,342	28,482	-
Total	\$ 138,121	\$ 251,425	\$ 469,107	\$ 237,598	\$ 171,642
<b>Excess Revenues</b>					
<b>(Expenditures)</b>	\$ 44,420	\$ (549)	\$ (220,407)	\$ (78,589)	\$ (46,621)
<b>Other Financing Sources</b>					
Interfund Transfers	\$ -	\$ 37,905	\$ 36,824	\$ -	\$ 36,161
Developer advances	-	-	128,937 (b)	60,000	-
League City Contribution	-	-	275,967 (c)	-	-
Excess Sources	\$ -	\$ 37,905	\$ 441,728	\$ 60,000	\$ 36,161
<b>Excess (Deficiency) of Revenues &amp; Other Financing Sources Over Expenditures &amp; Other Financing Uses</b>					
Total	\$ 44,420	\$ 37,356	\$ 221,321	\$ (18,589)	\$ (10,460)
<b>Fund Balance, Beginning of Year</b>					
Total	\$ 255,998	\$ 218,642	\$ (2,679)	\$ 15,910	\$ 26,370
<b>Fund Balance, End of Year</b>					
Total	\$ 300,418	\$ 255,998	\$ 218,642	\$ (2,679)	\$ 15,910

(a) Audited.

(b) Developer contribution for operations and capital projects in the District.

(c) League City contribution used for a City funded project in the District of approximately equal amount.

## MANAGEMENT

### Board of Directors

The current directors of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
W. E. White	President	05/2022
Jim Bollom	Vice President	05/2022
Terry Finkle	Secretary	05/2020
Glenn Carmack	Assistant Vice President	05/2020
David Foulkrod	Assistant Secretary	05/2020

The Directors own property and reside in the District. Directors have four-year terms staggered every two years. Elections are held only in even numbered years on the first Saturday in May.

### Tax Assessor/Collector

The tax assessor/collector for the District is Assessments of the Southwest, Inc. According to Assessments of the Southwest, Inc., its employees currently serve approximately 200 other special districts as tax assessor/collector.

### Operator of Water and Sewer Facilities

The City of League City, pursuant to the Utility Agreement between the District and the City, operates the District's water and sewer system. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY."

### Bookkeeper

Avanta Services ("Avanta") acts as bookkeeper for the District. Avanta performs similar services for approximately 30 other utility districts.

### Engineer

The consulting engineer for the District is LJA Engineering, Inc. LJA Engineering, Inc. currently serves approximately 100 other special districts as engineer.

### Bond Counsel/General Counsel

The District has engaged Smith, Murdaugh, Little & Bonham, LLP, Houston, Texas as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. See "LEGAL MATTERS."

### Financial Advisor

The District has employed the firm of RBC Capital Markets, LLC as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is employed by the District and has participated in the preparation of the Official Statement; however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third parties.

### Auditor

The financial statements of the District as of June 30, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

**DEBT SERVICE SCHEDULE**

Series 2020 - The Bonds

Year Ended 31-Dec	Outstanding Debt Service	Principal Due 9/1	Interest		Total Principal & Interest	New Debt Service
			Due 3/1	Due 9/1		
2020	\$ 1,544,535.00	-	-	\$ 26,220.52	\$ 26,220.52	\$ 1,570,755.52
2021	1,551,875.00	\$ 110,000.00	\$ 31,256.25	31,256.25	172,512.50	1,724,387.50
2022	1,557,310.00	120,000.00	30,156.25	30,156.25	180,312.50	1,737,622.50
2023	1,568,185.00	120,000.00	28,956.25	28,956.25	177,912.50	1,746,097.50
2024	1,566,075.00	130,000.00	27,756.25	27,756.25	185,512.50	1,751,587.50
2025	1,569,945.00	135,000.00	26,456.25	26,456.25	187,912.50	1,757,857.50
2026	1,577,260.00	140,000.00	25,106.25	25,106.25	190,212.50	1,767,472.50
2027	1,587,182.50	145,000.00	24,406.25	24,406.25	193,812.50	1,780,995.00
2028	1,594,495.00	150,000.00	23,500.00	23,500.00	197,000.00	1,791,495.00
2029	1,598,565.00	155,000.00	22,000.00	22,000.00	199,000.00	1,797,565.00
2030	1,600,740.00	170,000.00	20,450.00	20,450.00	210,900.00	1,811,640.00
2031	1,606,058.75	175,000.00	18,750.00	18,750.00	212,500.00	1,818,558.75
2032	1,614,370.00	180,000.00	17,000.00	17,000.00	214,000.00	1,828,370.00
2033	1,620,425.00	190,000.00	15,200.00	15,200.00	220,400.00	1,840,825.00
2034	1,623,718.75	200,000.00	13,300.00	13,300.00	226,600.00	1,850,318.75
2035	1,630,068.75	205,000.00	11,300.00	11,300.00	227,600.00	1,857,668.75
2036	1,634,018.75	220,000.00	9,250.00	9,250.00	238,500.00	1,872,518.75
2037	1,639,925.00	225,000.00	7,050.00	7,050.00	239,100.00	1,879,025.00
2038	1,648,206.25	235,000.00	4,800.00	4,800.00	244,600.00	1,892,806.25
2039	1,652,893.75	245,000.00	2,450.00	2,450.00	249,900.00	1,902,793.75
	<u>\$31,985,852.50</u>	<u>\$3,250,000.00</u>	<u>\$359,143.75</u>	<u>\$385,364.27</u>	<u>\$3,994,508.02</u>	<u>\$35,980,360.52</u>

## 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 and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS - Source of Payment.” Under Texas law, the Board may also 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. See “SELECTED FINANCIAL INFORMATION - 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 here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Galveston Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Galveston County, including the District. Such appraisal values are subject to review and change by the Galveston Central Appraisal Review Board (the “Appraisal Review Board”). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. For tax year 2018, the District granted an exemption of \$12,000 for persons 65 years of age or older and certain disabled persons. The District may be required to offer such exemptions if a majority of voters approve the same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Effective January 1, 2016, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, effective January 1, 2016, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled

veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veterans by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Additionally, the owner of a residential homestead property who is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. See "SELECTED FINANCIAL INFORMATION - Classification of Assessed Valuation."

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty (20) percent of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by July 1. See "SELECTED FINANCIAL INFORMATION."

**Freeport Goods Exemption:** 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 or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, 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 includes 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 property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods- in-transit personal property for all prior and subsequent years.

## **Tax Abatement**

The City or Galveston County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Galveston County or the City at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements need not be the same.

## **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally 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. Recent changes in state law require that homesteads be valued solely as a homestead and not for any other uses which might make the property more valuable.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized herein. 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 five (5) years.

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

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

## **Reappraisal of Property after Disaster**

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which



the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

The District did not request a reappraisal of property when Galveston County was declared a disaster area after Hurricane Harvey.

### **Tax Payment Installments after Disaster**

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **District and Taxpayer Remedies**

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

The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. The Tax Code provides that the District must allow for an installment agreement if a delinquent tax payer requests such an agreement. Such an agreement must provide for equal monthly installments and must extend for at least twelve months and no more than 36 months. If the subject property in question is a residential homestead then no additional penalties accrue while the agreement is in effect and payments are current.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, 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 can be classified herein as "Developing 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.

**Special Taxing Units:** Special Taxing Units 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 in the district, subject to certain homestead exemptions, are required to hold an 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 Special Taxing Unit 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 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.

**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 in the district, subject to certain homestead exemptions, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an 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 Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

**Developing Districts:** Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts 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 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.

**The District:** A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

### **Additional Penalties**

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

### **District Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "SELECTED FINANCIAL INFORMATION - Overlapping Taxes for 2019"). 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 property within six (6) months for commercial property and two (2) years for residential and other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. In addition, a person 65 or older may defer or abate a suit to collect delinquent taxes on the person's residence homestead. See "RISK FACTORS-Tax Collections."

## **LEGAL MATTERS**

### **Legal Proceedings**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for the information under the subheadings "Book-Entry-Only System" and "Remedies in Event of Default"), "THE DISTRICT - General," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY," "LEGAL MATTERS," "TAXING PROCEDURES," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION," solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement or conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

Smith, Murdaugh, Little & Bonham, LLP also serves as counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered.

### **No-Litigation Certificate**

The District will furnish the Initial Purchaser a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

### **No Material Adverse Change**

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

## TAX MATTERS

In the opinion of Smith, Murdaugh, Little & Bonham, LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The District has covenanted in the Bond Order that it will comply with these requirements.

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

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

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

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

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

## Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

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

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

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

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

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. **PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.**

## **Qualified Tax-Exempt Obligations**

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

## **SALE AND DISTRIBUTION OF BONDS**

### **Award of Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets (the "Initial Purchaser") bearing the interest rates shown under "MATURITIES" on the cover page hereof, at a price of 98.155737% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.112617% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser two (2) days prior to the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified on the cover page. Information concerning reoffering yields or prices is the sole responsibility of the Initial Purchaser.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME-TO-TIME BY THE INITIAL PURCHASER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such 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.

### **MUNICIPAL BOND RATING**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned its municipal bond rating of "AA" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. ("AGM"). Additionally, S&P has assigned the Bonds an underlying rating of "BBB-." An explanation of the significance of such ratings may be obtained from S&P. These ratings reflect only the views of S&P, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if in the sole judgment of S&P circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds.

### **MUNICIPAL BOND INSURANCE**

#### **Bond Insurance Policy**

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

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

#### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms

of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On November 7, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

#### *Capitalization of AGM*

At December 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,691 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$986 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,027 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

#### *Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020).

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

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM



Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

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

#### **BOND INSURANCE RISK FACTORS**

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

The obligations of the bond insurer are general obligations of the bond insurer and in an event of default by the bond insurer, the remedies available to the bondholder may be limited by applicable bankruptcy law or other similar laws related to insolvency.

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

## OFFICIAL STATEMENT

### Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor. Each consultant has agreed to the use of the information provided by such firms.

***The Engineer.*** The information contained in this Official Statement relating to engineering and to the description of the System has been provided by LJA Engineering, Inc. and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

***Appraisal District & Tax Assessor/Collector.*** The information contained in this Official Statement relating to the assessed valuation of property, classification of assessed valuation, tax collection rates, principal taxpayers, and in particular, such information contained in the section captioned "SELECTED FINANCIAL INFORMATION" has been provided by the Galveston Central Appraisal District and Assessments of the Southwest, Inc. in reliance upon their authority as experts in the field of tax assessing and tax collecting, respectively.

***Auditor.*** The financial statements of the District as of June 30, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

### Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity, and in reliance upon the consultants listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

### Updating of Official Statement

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

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information to the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system.

### **Annual Reports**

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

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings “SELECTED FINANCIAL INFORMATION,” except for “Estimated Overlapping Debt,” and “APPENDIX A” (Independent Auditor’s Report and Financial Statements for the year ended June 30, 2019). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information to EMMA.

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 (“Rule”). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to each EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Event Notices**

The District will provide timely notices of certain events to the MRSB, 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 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 an 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 to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation within the meaning of the rule of the District or other obligated person within the meaning of the rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of financial obligation of the District or other obligated person within the meaning of the rule, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation within the meaning of the rule of the District or obligated person within the meaning of the rule, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

## Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District but only if the agreement, as amended, would have permitted an Underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

## MISCELLANEOUS

All estimates, statements and assumptions in this OFFICIAL STATEMENT and 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 statement will be realized.

This Official Statement was approved by the Board of Directors of Galveston County Municipal Utility District No. 44, as of the date shown on the first page hereof.

/s/

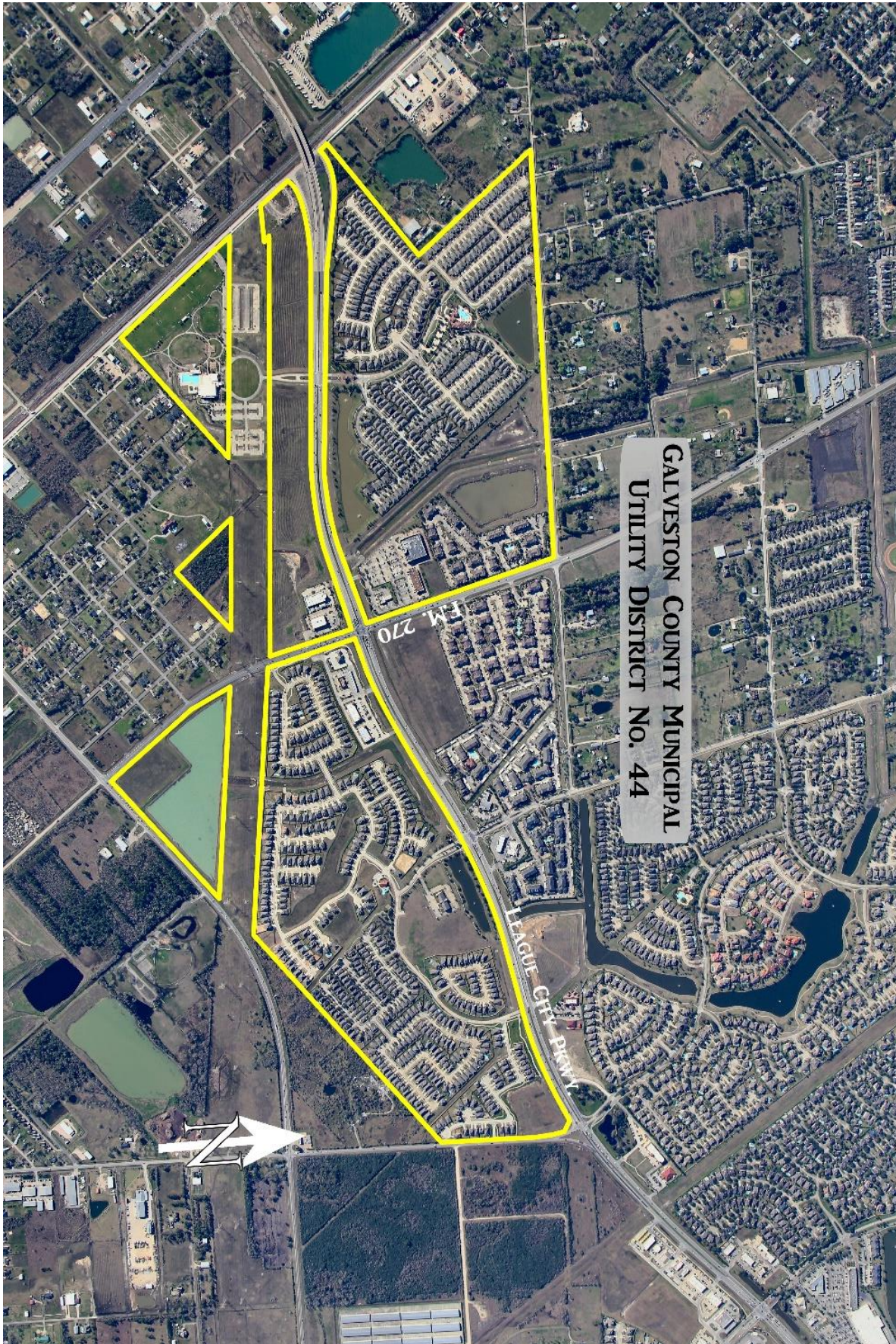
\_\_\_\_\_  
W. E. White  
President, Board of Directors  
Galveston County Municipal Utility District No. 44

/s/

\_\_\_\_\_  
Terry Finkle  
Secretary, Board of Directors  
Galveston County Municipal Utility District No. 44



**AERIAL PHOTOGRAPH**  
**(Dated February 2020)**



**GALVESTON COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 44**

F.M. 270

JACOBE CITY PARK





**PHOTOGRAPHS**  
(Dated February 2020)



**Child Care**



**Single-Family Residential Under Construction**



**CVS Pharmacy**



**Single-Family Residential**



**Single-Family Residential**



**Single-Family Residential**

**APPENDIX A**

Independent Auditor's Report and Financial Statements for the year ended June 30, 2019

# **Galveston County Municipal Utility District No. 44**

Galveston County, Texas

Independent Auditor's Report and Financial Statements

June 30, 2019





**Galveston County Municipal Utility District No. 44**  
**June 30, 2019**

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## Independent Auditor's Report

Board of Directors  
Galveston County Municipal Utility District No. 44  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Municipal Utility District No. 44 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

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

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
November 11, 2019

# **Galveston County Municipal Utility District No. 44**

## **Management's Discussion and Analysis**

### **June 30, 2019**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### **Government-wide Financial Statements**

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

**Galveston County Municipal Utility District No. 44**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

**Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Galveston County Municipal Utility District No. 44**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

**Financial Analysis of the District as a Whole**

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 4,828,175	\$ 3,026,188
Capital assets	3,266,585	2,950,838
Total assets	8,094,760	5,977,026
Deferred outflows of resources	468,511	483,340
Total assets and deferred outflows of resources	\$ 8,563,271	\$ 6,460,366
Long-term liabilities	\$ 30,292,136	\$ 27,937,063
Other liabilities	299,979	254,753
Total liabilities	30,592,115	28,191,816
Net position:		
Net investment in capital assets	3,266,585	2,950,838
Restricted	2,292,826	1,599,650
Unrestricted	(27,588,255)	(26,281,938)
Total net position	\$ (22,028,844)	\$ (21,731,450)

The total net position of the District decreased by \$297,394. The majority of the decrease is primarily due to the conveyance of capital assets to the City of League City (League City) for maintenance.

At June 30, 2019, unrestricted net position was (\$27,588,255). This amount was negative because the District has an obligation to sell bonds to finance the construction or acquisition of capital assets, which have been conveyed to League City pursuant to a utility agreement between the District and League City. Accordingly, these assets are not recorded in the financial statements of the District.

**Galveston County Municipal Utility District No. 44**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

**Summary of Changes in Net Position**

	<b>2019</b>	<b>2018</b>
Revenues:		
Property taxes	\$ 1,761,997	\$ 1,524,220
Other revenues	73,401	34,870
Total revenues	1,835,398	1,559,090
Expenses:		
Services	180,966	240,967
Conveyance of capital assets	768,888	2,508,184
Debt service	1,182,938	846,739
Total expenses	2,132,792	3,595,890
Change in net position	(297,394)	(2,036,800)
Net position, beginning of year	(21,731,450)	(19,694,650)
Net position, end of year	\$ (22,028,844)	\$ (21,731,450)

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended June 30, 2019, were \$4,776,613, an increase of \$1,829,386 from the prior year.

The general fund's fund balance increased by \$44,420. This increase was related to property tax revenues exceeding service operations expenditures.

The debt service fund's fund balance increased by \$760,466, primarily due to property tax revenues generated being greater than bond principal and interest requirements.

The capital projects fund's fund balance increased by \$1,024,500 due to proceeds received from the sale of bonds exceeding capital outlay expenditures and debt issuance costs.

**Galveston County Municipal Utility District No. 44**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to professional fee expenditures being higher than anticipated and property tax revenues being lower than anticipated. In addition, a budgeted interfund transfer did not occur. The fund balance as of June 30, 2019, was expected to be \$264,198 and the actual end-of-year fund balance was \$300,418.

**Capital Assets and Related Debt**

Capital Assets

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

**Capital Assets**

	<b>2019</b>	<b>2018</b>
Land and improvements	\$ 3,266,585	\$ 2,950,838

During the current year, additions to capital assets were as follows:

Village of Tuscan Lakes North and South detention basin and detention pond erosion improvements	\$ 315,747
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Debt

The changes in the debt position of the District during the fiscal year ended June 30, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$ 27,937,063
Increases in long-term debt	5,796,657
Decreases in long-term debt	(3,441,584)
Long-term debt payable, end of year	\$ 30,292,136

Developers within the District have constructed water, sewer and drainage facilities on behalf of the District under terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of June 30, 2019, a liability for developer-constructed capital assets of \$7,893,118 was recorded in the government-wide financial statements.



**Galveston County Municipal Utility District No. 44**  
**Management's Discussion and Analysis (Continued)**  
**June 30, 2019**

At June 30, 2019, the District had \$43,755,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and \$4,000,000 for financing and constructing recreational facilities within the District.

The District's bonds carry an underlying rating of "BBB-" from Standard & Poor's. The District's Series 2009, 2012, 2014 and 2017 bonds are not rated. The District's Series 2016 refunding bonds, the Series 2018 and Series 2019 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

**Other Relevant Factors**

Utility Agreement Between the District and the City of League City

All land within the District is located within the city limits of League City. Prior to the creation of the District, the District's developer entered into a utility agreement with League City (the Utility Agreement) dated April 8, 2003. The District approved and ratified the Utility Agreement shortly after its creation. The Utility Agreement obligates the District to acquire, construct and extend water, sanitary sewer and drainage facilities to serve land in the District and, when completed in accordance with approved plans and specifications, the District is to convey title of water and sanitary sewer facilities to League City. League City then operates and maintains such facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. League City also levies and collects ad valorem taxes on taxable property within the District.

**Galveston County Municipal Utility District No. 44**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**June 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 11,922	\$ 29,560	\$ -	\$ 41,482	\$ -	\$ 41,482
Short-term investments	310,735	2,640,164	1,819,296	4,770,195	-	4,770,195
Property tax receivable	1,449	11,346	-	12,795	-	12,795
Interfund receivable	2,367	-	-	2,367	(2,367)	-
Due from others	-	3,703	-	3,703	-	3,703
Capital assets:						
Land and improvements	-	-	-	-	3,266,585	3,266,585
<b>Total assets</b>	<b>326,473</b>	<b>2,684,773</b>	<b>1,819,296</b>	<b>4,830,542</b>	<b>3,264,218</b>	<b>8,094,760</b>
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	0	0	0	0	468,511	468,511
<b>Total assets and deferred outflows of resources</b>	<b>\$ 326,473</b>	<b>\$ 2,684,773</b>	<b>\$ 1,819,296</b>	<b>\$ 4,830,542</b>	<b>\$ 3,732,729</b>	<b>\$ 8,563,271</b>

**Galveston County Municipal Utility District No. 44**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**June 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 24,606	\$ 930	\$ 750	\$ 26,286	\$ -	\$ 26,286
Accrued interest payable	-	12,481	-	12,481	261,212	273,693
Interfund payable	-	2,367	-	2,367	(2,367)	-
Long-term liabilities:						
Due within one year	-	-	-	-	485,000	485,000
Due after one year	-	-	-	-	29,807,136	29,807,136
<b>Total liabilities</b>	<b>24,606</b>	<b>15,778</b>	<b>750</b>	<b>41,134</b>	<b>30,550,981</b>	<b>30,592,115</b>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	1,449	11,346	0	12,795	(12,795)	0
<b>Fund Balances/Net Position</b>						
Fund balances:						
Restricted:						
Unlimited tax bonds	-	2,657,649	-	2,657,649	(2,657,649)	-
Water, sewer and drainage	-	-	1,818,546	1,818,546	(1,818,546)	-
Unassigned	300,418	-	-	300,418	(300,418)	-
<b>Total fund balances</b>	<b>300,418</b>	<b>2,657,649</b>	<b>1,818,546</b>	<b>4,776,613</b>	<b>(4,776,613)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 326,473</b>	<b>\$ 2,684,773</b>	<b>\$ 1,819,296</b>	<b>\$ 4,830,542</b>		
Net position:						
Net investment in capital assets					3,266,585	3,266,585
Restricted for debt service					2,258,542	2,258,542
Restricted for capital projects					34,284	34,284
Unrestricted					(27,588,255)	(27,588,255)
<b>Total net position</b>					<b>\$ (22,028,844)</b>	<b>\$ (22,028,844)</b>

**Galveston County Municipal Utility District No. 44**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 176,761	\$ 1,583,177	\$ -	\$ 1,759,938	\$ 2,059	\$ 1,761,997
Penalty and interest	-	5,254	-	5,254	(1,677)	3,577
Investment income	5,780	43,353	20,691	69,824	-	69,824
Total revenues	<u>182,541</u>	<u>1,631,784</u>	<u>20,691</u>	<u>1,835,016</u>	<u>382</u>	<u>1,835,398</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Professional fees	103,625	1,246	-	104,871	-	104,871
Contracted services	13,916	23,774	-	37,690	1,011	38,701
Other expenditures	12,490	1,826	-	14,316	15,488	29,804
Recreational facilities	7,590	-	-	7,590	-	7,590
Capital outlay	500	-	3,952,602	3,953,102	(3,953,102)	-
Conveyance of capital assets	-	-	-	-	768,888	768,888
Debt service:						
Principal retirement	-	365,000	-	365,000	(365,000)	-
Interest and fees	-	630,005	-	630,005	96,961	726,966
Debt issuance costs	-	-	455,972	455,972	-	455,972
Total expenditures/expenses	<u>138,121</u>	<u>1,021,851</u>	<u>4,408,574</u>	<u>5,568,546</u>	<u>(3,435,754)</u>	<u>2,132,792</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>44,420</u>	<u>609,933</u>	<u>(4,387,883)</u>	<u>(3,733,530)</u>	<u>3,436,136</u>	
<b>Other Financing Sources (Uses)</b>						
General obligation bonds issued	-	150,533	5,449,467	5,600,000	(5,600,000)	
Discount on debt issued	-	-	(37,084)	(37,084)	37,084	
Total other financing sources	<u>0</u>	<u>150,533</u>	<u>5,412,383</u>	<u>5,562,916</u>	<u>(5,562,916)</u>	
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>44,420</u>	<u>760,466</u>	<u>1,024,500</u>	<u>1,829,386</u>	<u>(1,829,386)</u>	
<b>Change in Net Position</b>					(297,394)	(297,394)
<b>Fund Balances (Deficit)/Net Position</b>						
Beginning of year	<u>255,998</u>	<u>1,897,183</u>	<u>794,046</u>	<u>2,947,227</u>	<u>-</u>	<u>(21,731,450)</u>
End of year	<u>\$ 300,418</u>	<u>\$ 2,657,649</u>	<u>\$ 1,818,546</u>	<u>\$ 4,776,613</u>	<u>\$ 0</u>	<u>\$ (22,028,844)</u>

# **Galveston County Municipal Utility District No. 44**

## **Notes to Financial Statements**

### **June 30, 2019**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

Galveston County Municipal Utility District No. 44 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective August 10, 2004, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance and construct waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. All services are provided by the City of League City (League City).

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

#### ***Government-wide and Fund Financial Statements***

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

# Galveston County Municipal Utility District No. 44

## Notes to Financial Statements

### June 30, 2019

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

#### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

***Measurement Focus and Basis of Accounting***

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

**Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is 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.

***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

***Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

***Investments and Investment Income***

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.



**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended June 30, 2019, include collections during the current period or within 60 days of year-end related to the 2018 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended June 30, 2019, the 2018 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

The District conveys the majority of its capital assets to League City upon completion pursuant to an agreement originating in 2003.

***Deferred Amount on Debt Refundings***

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

***Debt Issuance Costs***

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

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

***Net Position/Fund Balances***

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

The components of unrestricted net position at June 30, 2019, are as follows:

General fund, unrestricted fund balance, including deferred taxes	\$ 301,867
Long-term debt in excess of capital assets and unexpended bond proceeds	<u>(27,890,122)</u>
Total	<u><u>\$ (27,588,255)</u></u>

***Reconciliation of Government-wide and Fund Financial Statements***

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 3,266,585
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	12,795
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	468,511

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	\$ (261,212)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(30,292,136)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (26,805,457)</u></u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ 1,829,386
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense or reported as conveyed capital assets. This is the amount by which capital outlay expenditures exceeded conveyance of capital assets and noncapitalized costs in the current period.	3,167,715
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	37,084
Governmental funds report proceeds from sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.	(5,235,000)
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	382
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(96,961)</u>
Change in net position of governmental activities.	<u><u>\$ (297,394)</u></u>

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain 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.

At June 30, 2019, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, 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, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At June 30, 2019, the District had the following investments and maturities:

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 4,770,195	\$ 4,770,195	\$ 0	\$ 0	\$ 0

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2019, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at June 30, 2019, as follows:

Carrying value:		
Deposits	\$	41,482
Investments		4,770,195
Total	\$	4,811,677

**Investment Income**

Investment income of \$69,824 for the year ended June 30, 2019, consisted of interest income.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2019, is presented below:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:			
Land and improvements	\$ 2,950,838	\$ 315,747	\$ 3,266,585

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2019, were as follows.

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ 17,415,000	\$ 5,600,000	\$ 365,000	\$ 22,650,000	\$ 485,000
Less discounts on bonds	317,467	37,084	12,090	342,461	-
Add premiums on bonds	94,444	-	2,965	91,479	-
	<u>17,191,977</u>	<u>5,562,916</u>	<u>355,875</u>	<u>22,399,018</u>	<u>485,000</u>
Due to developers	<u>10,745,086</u>	<u>233,741</u>	<u>3,085,709</u>	<u>7,893,118</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 27,937,063</u>	<u>\$ 5,796,657</u>	<u>\$ 3,441,584</u>	<u>\$ 30,292,136</u>	<u>\$ 485,000</u>

**General Obligation Bonds**

	<b>Series 2009</b>	<b>Series 2012</b>
Amounts outstanding, June 30, 2019	\$255,000	\$2,770,000
Interest rates	4.50% to 5.50%	3.00% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2019/2021	September 1, 2019/2039
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2019	September 1, 2021
	<b>Series 2014</b>	<b>Refunding Series 2016</b>
Amounts outstanding, June 30, 2019	\$3,185,000	\$3,610,000
Interest rates	2.500% to 4.375%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2019/2039	September 1, 2019/2039
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2022	September 1, 2025

\*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

	<b>Series 2017</b>	<b>Series 2018</b>
Amounts outstanding, June 30, 2019	\$3,580,000	\$3,650,000
Interest rates	2.00% to 4.00%	3.00% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2019/2039	September 1, 2019/2039
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2025	September 1, 2023
		<b>Series 2019</b>
Amount outstanding, June 30, 2019		\$5,600,000
Interest rates		2.00% to 4.00%
Maturity dates, serially beginning/ending		September 1, 2020/2039
Interest payment dates		September 1/March 1
Callable date*		September 1, 2025

\*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

***Annual Debt Service Requirements***

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at June 30, 2019:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 485,000	\$ 812,808	\$ 1,297,808
2021	740,000	793,205	1,533,205
2022	770,000	769,592	1,539,592
2023	800,000	745,247	1,545,247
2024	835,000	717,128	1,552,128
2025-2029	4,690,000	3,126,203	7,816,203
2030-2034	5,720,000	2,215,239	7,935,239
2035-2039	7,020,000	1,020,526	8,040,526
2040	1,590,000	31,446	1,621,446
Total	<u>\$ 22,650,000</u>	<u>\$ 10,231,394</u>	<u>\$ 32,881,394</u>

**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

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

Bonds voted:	
Water, sewer and drainage facilities	\$ 67,200,000
Recreational facilities	4,000,000
Bonds sold:	
Water, sewer and drainage facilities	23,445,000
Refunding bonds voted	33,600,000
Refunding bonds authorization used	595,000

During a prior year, the District defeased part of its Series 2009 bonds by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed from the District's long-term liabilities. As of June 30, 2019, the amount of defeased debt outstanding but removed from long-term liabilities is \$3,130,000.

***Due to Developers***

Developers of the District have constructed underground utilities on behalf of the District. The District has conveyed the facilities to League City and has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$7,893,118. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities. The District is currently unable to estimate when bonds will be issued to pay this liability.

**Note 5: Significant Bond Order and Commission Requirements**

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended June 30, 2019, the District levied an ad valorem debt service tax at the rate of \$0.7200 per \$100 of assessed valuation, which resulted in a tax levy of \$1,582,193 on the taxable valuation of \$219,749,029 for the 2018 tax year. The interest and principal requirements to be paid in 2019 total \$1,222,874, of which \$327,334 has been paid and \$895,540 is due on September 1, 2019.
- B. In accordance with the Series 2017, 2018 and 2019 Bond Orders, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid.



**Galveston County Municipal Utility District No. 44**  
**Notes to Financial Statements**  
**June 30, 2019**

Bond interest reserve, beginning of year	\$	131,837
Additions--One year's interest during the construction period, Series 2019		150,533
Deductions--Appropriation from bond interest paid		<u>(133,129)</u>
Bond interest reserve, end of year	\$	<u>149,241</u>

**Note 6: Maintenance Taxes**

At an election held November 2, 2004, voters authorized a maintenance tax not to exceed \$1.25 per \$100 valuation on all property within the District subject to taxation. During the year ended June 30, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.0800 per \$100 of assessed valuation, which resulted in a tax levy of \$175,800 on the taxable valuation of \$219,749,029 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Contract With the City of League City**

Prior to the creation of the District, the District's developer entered into a 40-year contract with League City on April 8, 2003. The District approved and ratified the Utility Agreement shortly after its creation. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer and drainage facilities to serve the District.

The District shall be the owner of the facilities until the facilities are completed and approved by League City, at which time ownership of the water and sanitary sewer facilities will vest in League City; however, the District shall have a security interest therein until all bonds issued by the District pursuant to the contract are retired. League City agrees to reserve water and sewer capacity to serve persons within the District. The District has no oversight responsibilities for the operation of the facilities.

***Customer Service Revenues***

During the terms of the contract, League City is obligated to maintain and operate the facilities in good working condition and to provide services to users within the District without discrimination. League City will fix rates and charges for customers in the District equal and uniform to the rates charged to other similar users within League City and all revenue from the facilities shall belong exclusively to League City.

# **Galveston County Municipal Utility District No. 44**

## **Notes to Financial Statements**

**June 30, 2019**

### **Note 8: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

## **Required Supplementary Information**

**Galveston County Municipal Utility District No. 44**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended June 30, 2019**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 180,880	\$ 176,761	\$ (4,119)
Investment income	2,500	5,780	3,280
<b>Total revenues</b>	<u>183,380</u>	<u>182,541</u>	<u>(839)</u>
<b>Expenditures</b>			
Service operations:			
Professional fees	97,000	103,625	(6,625)
Contracted services	15,600	13,916	1,684
Other expenditures	16,580	12,490	4,090
Recreational facilities	6,000	7,590	(1,590)
Capital outlay	-	500	(500)
<b>Total expenditures</b>	<u>135,180</u>	<u>138,121</u>	<u>(2,941)</u>
<b>Excess of Revenues Over Expenditures</b>	48,200	44,420	(3,780)
<b>Other Financing Uses</b>			
Interfund transfers out	<u>(40,000)</u>	-	<u>40,000</u>
<b>Excess of Revenues and Transfers In Over Expenditures and Transfers Out</b>	8,200	44,420	36,220
<b>Fund Balance, Beginning of Year</b>	<u>255,998</u>	<u>255,998</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 264,198</u></u>	<u><u>\$ 300,418</u></u>	<u><u>\$ 36,220</u></u>

**Galveston County Municipal Utility District No. 44**  
**Notes to Required Supplementary Information**  
**June 30, 2019**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2019.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Other Information**

**Galveston County Municipal Utility District No. 44**  
**Other Schedules Included Within This Report**  
**June 30, 2019**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 12-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

**Galveston County Municipal Utility District No. 44**  
**Schedule of Services and Rates**  
**Year Ended June 30, 2019**

1. Services provided by the District:

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



**Galveston County Municipal Utility District No. 44**  
**Schedule of General Fund Expenditures**  
**Year Ended June 30, 2019**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	15,200	
Legal		65,558	
Engineering		22,867	
Financial advisor		-	103,625
		<hr/>	
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			-
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping		13,916	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	13,916
		<hr/>	
<b>Utilities</b>			-
<b>Repairs and Maintenance</b>			-
<b>Administrative Expenditures</b>			
Directors' fees		7,650	
Office supplies		1,371	
Insurance		1,548	
Other administrative expenditures		1,921	12,490
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		-	
Expenditures not capitalized		500	500
		<hr/>	
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			-
<b>Fire Fighting</b>			-
<b>Bond Issuance Costs</b>			-
<b>Parks and Recreation</b>			7,590
<b>Other Expenditures</b>			-
			<hr/>
Total expenditures		<u>\$</u>	<u>138,121</u>

**Galveston County Municipal Utility District No. 44**  
**Schedule of Temporary Investments**  
**June 30, 2019**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
TexPool	2.43%	Demand	\$ 310,735	\$ 0
<b>Debt Service Fund</b>				
TexPool	2.43%	Demand	2,640,164	0
<b>Capital Projects Fund</b>				
TexPool	2.43%	Demand	8,198	-
TexPool	2.43%	Demand	146,977	-
TexPool	2.43%	Demand	29,673	-
TexPool	2.43%	Demand	7,957	-
TexPool	2.43%	Demand	297,422	-
TexPool	2.43%	Demand	1,329,069	-
			<u>1,819,296</u>	<u>0</u>
Totals			<u>\$ 4,770,195</u>	<u>\$ 0</u>

**Galveston County Municipal Utility District No. 44**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended June 30, 2019**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 1,748	\$ 8,988
Additions and corrections to prior years' taxes	662	3,342
Adjusted receivable, beginning of year	2,410	12,330
 <b>2018 Original Tax Levy</b>	 174,310	 1,568,787
Additions and corrections	1,490	13,406
Adjusted tax levy	175,800	1,582,193
Total to be accounted for	178,210	1,594,523
Tax collections: Current year	(174,771)	(1,572,943)
Prior years	(1,990)	(10,234)
Receivable, end of year	\$ 1,449	\$ 11,346
 <b>Receivable, by Years</b>		
2018	\$ 1,028	\$ 9,250
2017	210	1,082
2016	69	276
2015	57	292
2014	77	398
2013	6	22
2012	2	26
Receivable, end of year	\$ 1,449	\$ 11,346

**Galveston County Municipal Utility District No. 44**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended June 30, 2019**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Property Valuations</b>				
Land	\$ 61,960,730	\$ 53,976,050	\$ 50,696,480	\$ 41,772,920
Improvements	172,847,288	149,453,347	114,376,796	92,112,933
Personal property	3,384,524	3,314,492	2,537,915	2,509,918
Exemptions	<u>(18,443,513)</u>	<u>(15,568,696)</u>	<u>(11,660,212)</u>	<u>(14,247,438)</u>
Total property valuations	<u>\$ 219,749,029</u>	<u>\$ 191,175,193</u>	<u>\$ 155,950,979</u>	<u>\$ 122,148,333</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.7200	\$ 0.6700	\$ 0.6400	\$ 0.6700
Maintenance tax rates*	<u>0.0800</u>	<u>0.1300</u>	<u>0.1600</u>	<u>0.1300</u>
Total tax rates per \$100 valuation	<u>\$ 0.8000</u>	<u>\$ 0.8000</u>	<u>\$ 0.8000</u>	<u>\$ 0.8000</u>
<b>Tax Levy</b>	<u>\$ 1,757,993</u>	<u>\$ 1,529,402</u>	<u>\$ 1,247,608</u>	<u>\$ 977,354</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.25 on November 2, 2004

\*\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years**  
**June 30, 2019**

<b>Due During Fiscal Years Ending June 30</b>	<b>Series 2009</b>		
	<b>Principal Due September 1</b>	<b>Interest Due September 1, March 1</b>	<b>Total</b>
2020	\$ 80,000	\$ 11,330	\$ 91,330
2021	85,000	7,160	92,160
2022	90,000	2,475	92,475
Totals	<u>\$ 255,000</u>	<u>\$ 20,965</u>	<u>\$ 275,965</u>

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Series 2012		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 75,000	\$ 119,231	\$ 194,231
2021	80,000	116,516	196,516
2022	85,000	113,461	198,461
2023	90,000	110,091	200,091
2024	95,000	106,436	201,436
2025	95,000	102,636	197,636
2026	100,000	98,687	198,687
2027	110,000	94,382	204,382
2028	115,000	89,683	204,683
2029	120,000	84,689	204,689
2030	125,000	79,420	204,420
2031	130,000	73,874	203,874
2032	140,000	67,966	207,966
2033	145,000	61,696	206,696
2034	155,000	54,922	209,922
2035	160,000	47,638	207,638
2036	170,000	40,006	210,006
2037	180,000	31,913	211,913
2038	190,000	23,356	213,356
2039	200,000	14,338	214,338
2040	210,000	4,856	214,856
	\$ 2,770,000	\$ 1,535,797	\$ 4,305,797
Totals	\$ 2,770,000	\$ 1,535,797	\$ 4,305,797

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Series 2014		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 95,000	\$ 120,784	\$ 215,784
2021	100,000	118,346	218,346
2022	105,000	115,784	220,784
2023	110,000	112,959	222,959
2024	110,000	109,796	219,796
2025	115,000	106,306	221,306
2026	125,000	102,341	227,341
2027	130,000	97,860	227,860
2028	135,000	92,973	227,973
2029	140,000	87,711	227,711
2030	145,000	82,081	227,081
2031	155,000	76,081	231,081
2032	160,000	69,702	229,702
2033	165,000	63,039	228,039
2034	175,000	56,047	231,047
2035	180,000	48,725	228,725
2036	190,000	40,975	230,975
2037	200,000	32,688	232,688
2038	210,000	23,844	233,844
2039	215,000	14,547	229,547
2040	225,000	4,922	229,922
Totals	<u>\$ 3,185,000</u>	<u>\$ 1,577,511</u>	<u>\$ 4,762,511</u>

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Refunding Series 2016		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 35,000	\$ 140,158	\$ 175,158
2021	35,000	139,458	174,458
2022	35,000	138,723	173,723
2023	130,000	136,388	266,388
2024	140,000	131,637	271,637
2025	145,000	125,937	270,937
2026	150,000	120,037	270,037
2027	160,000	113,837	273,837
2028	165,000	107,337	272,337
2029	170,000	100,637	270,637
2030	180,000	93,637	273,637
2031	185,000	86,337	271,337
2032	195,000	78,738	273,738
2033	200,000	70,838	270,838
2034	215,000	62,538	277,538
2035	220,000	53,975	273,975
2036	230,000	45,256	275,256
2037	240,000	36,000	276,000
2038	250,000	26,200	276,200
2039	260,000	16,000	276,000
2040	270,000	5,400	275,400
	\$ 3,610,000	\$ 1,829,068	\$ 5,439,068
Totals	\$ 3,610,000	\$ 1,829,068	\$ 5,439,068



**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Series 2017		Total
	Principal Due September 1	Interest Due September 1, March 1	
2020	\$ 100,000	\$ 123,118	\$ 223,118
2021	105,000	120,963	225,963
2022	110,000	118,487	228,487
2023	115,000	115,672	230,672
2024	120,000	112,497	232,497
2025	125,000	108,942	233,942
2026	135,000	104,974	239,974
2027	140,000	100,642	240,642
2028	150,000	95,928	245,928
2029	155,000	90,818	245,818
2030	165,000	85,295	250,295
2031	170,000	79,348	249,348
2032	180,000	73,025	253,025
2033	190,000	66,200	256,200
2034	200,000	58,888	258,888
2035	210,000	51,200	261,200
2036	220,000	43,138	263,138
2037	230,000	34,556	264,556
2038	240,000	25,450	265,450
2039	255,000	15,700	270,700
2040	265,000	5,300	270,300
Totals	<u>\$ 3,580,000</u>	<u>\$ 1,630,141</u>	<u>\$ 5,210,141</u>

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Series 2018		
	Principal Due September 1	Interest Due September 1, March 1	Total
2020	\$ 100,000	\$ 131,775	\$ 231,775
2021	105,000	126,650	231,650
2022	115,000	121,150	236,150
2023	120,000	115,275	235,275
2024	125,000	109,150	234,150
2025	130,000	104,075	234,075
2026	135,000	100,100	235,100
2027	145,000	95,900	240,900
2028	150,000	91,381	241,381
2029	160,000	86,438	246,438
2030	165,000	81,156	246,156
2031	175,000	75,522	250,522
2032	185,000	69,447	254,447
2033	195,000	62,913	257,913
2034	200,000	56,000	256,000
2035	210,000	48,825	258,825
2036	225,000	41,213	266,213
2037	235,000	33,015	268,015
2038	245,000	24,315	269,315
2039	260,000	15,000	275,000
2040	270,000	5,062	275,062
	\$ 3,650,000	\$ 1,594,362	\$ 5,244,362
Totals	\$ 3,650,000	\$ 1,594,362	\$ 5,244,362

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Series 2019		Total
	Principal Due September 1	Interest Due September 1, March 1	
2020	\$ -	\$ 166,412	\$ 166,412
2021	230,000	164,112	394,112
2022	230,000	159,512	389,512
2023	235,000	154,862	389,862
2024	245,000	147,612	392,612
2025	255,000	137,613	392,613
2026	255,000	129,963	384,963
2027	250,000	124,600	374,600
2028	260,000	118,538	378,538
2029	270,000	111,238	381,238
2030	275,000	103,062	378,062
2031	280,000	94,738	374,738
2032	280,000	86,338	366,338
2033	295,000	77,713	372,713
2034	295,000	68,678	363,678
2035	310,000	59,031	369,031
2036	310,000	48,956	358,956
2037	315,000	38,800	353,800
2038	325,000	28,400	353,400
2039	335,000	17,466	352,466
2040	350,000	5,906	355,906
Totals	<u>\$ 5,600,000</u>	<u>\$ 2,043,550</u>	<u>\$ 7,643,550</u>

**Galveston County Municipal Utility District No. 44**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**June 30, 2019**

Due During Fiscal Years Ending June 30	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 485,000	\$ 812,808	\$ 1,297,808
2021	740,000	793,205	1,533,205
2022	770,000	769,592	1,539,592
2023	800,000	745,247	1,545,247
2024	835,000	717,128	1,552,128
2025	865,000	685,509	1,550,509
2026	900,000	656,102	1,556,102
2027	935,000	627,221	1,562,221
2028	975,000	595,840	1,570,840
2029	1,015,000	561,531	1,576,531
2030	1,055,000	524,651	1,579,651
2031	1,095,000	485,900	1,580,900
2032	1,140,000	445,216	1,585,216
2033	1,190,000	402,399	1,592,399
2034	1,240,000	357,073	1,597,073
2035	1,290,000	309,394	1,599,394
2036	1,345,000	259,544	1,604,544
2037	1,400,000	206,972	1,606,972
2038	1,460,000	151,565	1,611,565
2039	1,525,000	93,051	1,618,051
2040	1,590,000	31,446	1,621,446
Totals	<u>\$ 22,650,000</u>	<u>\$ 10,231,394</u>	<u>\$ 32,881,394</u>

**Galveston County Municipal Utility District No. 44**  
**Changes in Long-term Bonded Debt**  
**Year Ended June 30, 2019**

	<b>Bond</b>		
	<b>Series 2009</b>	<b>Series 2012</b>	<b>Series 2014</b>
Interest rates	4.50% to 5.50%	3.00% to 5.00%	2.500% to 4.375%
Dates interest payable	September 1/ March 1	September 1/ March 1	September 1/ March 1
Maturity dates	September 1, 2019/2021	September 1, 2019/2039	September 1, 2019/2039
Bonds outstanding, beginning of current year	\$ 330,000	\$ 2,840,000	\$ 3,275,000
Bonds sold during current year	-	-	-
Retirements, principal	<u>75,000</u>	<u>70,000</u>	<u>90,000</u>
Bonds outstanding, end of current year	<u>\$ 255,000</u>	<u>\$ 2,770,000</u>	<u>\$ 3,185,000</u>
Interest paid during current year	<u>\$ 15,071</u>	<u>\$ 121,626</u>	<u>\$ 123,096</u>

Paying agent's name and address:

<b>Series 2009</b>	- <u>Wells Fargo Bank, N.A., Houston, Texas</u>
<b>Series 2012</b>	- <u>The Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>
<b>Series 2014</b>	- <u>Amegy Bank National Association, Houston, Texas</u>
<b>Series 2016</b>	- <u>Amegy Bank National Association, Houston, Texas</u>
<b>Series 2017</b>	- <u>Amegy Bank National Association, Houston, Texas</u>
<b>Series 2018</b>	- <u>Amegy Bank National Association, Houston, Texas</u>
<b>Series 2019</b>	- <u>Zions Bancorporation, National Association, Houston, Texas</u>

Bond authority:

	<b>Tax Bonds</b>	<b>Recreational Facilities Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	<u>\$ 67,200,000</u>	<u>\$ 4,000,000</u>	<u>\$ 33,600,000</u>
Amount issued	<u>\$ 23,445,000</u>	<u>\$ -</u>	<u>\$ 595,000</u>
Remaining to be issued	<u>\$ 43,755,000</u>	<u>\$ 4,000,000</u>	<u>\$ 33,005,000</u>

Debt service fund cash and temporary investment balances as of June 30, 2019: \$ 2,669,724

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,565,781

**Issues**

<b>Refunding Series 2016</b>	<b>Series 2017</b>	<b>Series 2018</b>	<b>Series 2019</b>	<b>Total</b>
2.00% to 4.00%	2.00% to 4.00%	3.00% to 5.00%	2.00% to 4.00%	
September 1/ March 1	September 1/ March 1	September 1/ March 1	September 1/ March 1	
September 1, 2019/2039	September 1, 2019/2039	September 1, 2019/2039	September 1, 2020/2039	
\$ 3,645,000	\$ 3,675,000	\$ 3,650,000	\$ -	\$ 17,415,000
-	-	-	5,600,000	5,600,000
<u>35,000</u>	<u>95,000</u>	<u>-</u>	<u>-</u>	<u>365,000</u>
<u>\$ 3,610,000</u>	<u>\$ 3,580,000</u>	<u>\$ 3,650,000</u>	<u>\$ 5,600,000</u>	<u>\$ 22,650,000</u>
<u>\$ 140,858</u>	<u>\$ 125,068</u>	<u>\$ 111,896</u>	<u>\$ 0</u>	<u>\$ 637,615</u>

**Galveston County Municipal Utility District No. 44**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended June 30,**

	Amounts				
	2019	2018	2017	2016	2015
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 176,761	\$ 248,118	\$ 248,036	\$ 158,914	\$ 124,994
Investment income	5,780	2,758	664	95	27
Total revenues	<u>182,541</u>	<u>250,876</u>	<u>248,700</u>	<u>159,009</u>	<u>125,021</u>
<b>Expenditures</b>					
Service operations:					
Professional fees	103,625	120,712	130,322	116,640	84,688
Contracted services	13,916	17,035	18,562	15,259	11,911
Repairs and maintenance	-	49,682	-	-	-
Other expenditures	12,490	18,746	19,974	17,465	14,746
Recreational facilities	7,590	4,220	13,575	59,752	58,749
Capital outlay	500	1,025	278,332	-	1,548
Debt service, debt issuance costs	-	40,005	8,342	28,482	-
Total expenditures	<u>138,121</u>	<u>251,425</u>	<u>469,107</u>	<u>237,598</u>	<u>171,642</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>44,420</u>	<u>(549)</u>	<u>(220,407)</u>	<u>(78,589)</u>	<u>(46,621)</u>
<b>Other Financing Sources</b>					
Interfund transfers in	-	37,905	36,824	-	36,161
Developer advances received	-	-	128,937	60,000	-
League City contribution	-	-	275,967	-	-
Total other financing sources	<u>0</u>	<u>37,905</u>	<u>441,728</u>	<u>60,000</u>	<u>36,161</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	44,420	37,356	221,321	(18,589)	(10,460)
<b>Fund Balance (Deficit), Beginning of Year</b>	<u>255,998</u>	<u>218,642</u>	<u>(2,679)</u>	<u>15,910</u>	<u>26,370</u>
<b>Fund Balance (Deficit), End of Year</b>	<u>\$ 300,418</u>	<u>\$ 255,998</u>	<u>\$ 218,642</u>	<u>\$ (2,679)</u>	<u>\$ 15,910</u>
<b>Total Active Retail Water Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Active Retail Wastewater Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
96.8 %	98.9 %	99.7 %	99.9 %	100.0 %
<u>3.2</u>	<u>1.1</u>	<u>0.3</u>	<u>0.1</u>	<u>0.0</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
56.8	48.1	52.4	73.4	67.8
7.6	6.8	7.5	9.6	9.5
-	19.8	-	-	-
6.8	7.5	8.0	11.0	11.8
4.2	1.7	5.5	37.6	47.0
0.3	0.4	111.9	-	1.2
<u>-</u>	<u>15.9</u>	<u>3.3</u>	<u>17.9</u>	<u>-</u>
<u>75.7</u>	<u>100.2</u>	<u>188.6</u>	<u>149.5</u>	<u>137.3</u>
<u><u>24.3 %</u></u>	<u><u>(0.2) %</u></u>	<u><u>(88.6) %</u></u>	<u><u>(49.5) %</u></u>	<u><u>(37.3) %</u></u>



**Galveston County Municipal Utility District No. 44**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended June 30,**

	Amounts				
	2019	2018	2017	2016	2015
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 1,583,177	\$ 1,277,297	\$ 992,927	\$ 819,504	\$ 644,119
Penalty and interest	5,254	8,220	5,977	4,931	3,246
Investment income	43,353	17,342	4,871	1,329	253
Total revenues	<u>1,631,784</u>	<u>1,302,859</u>	<u>1,003,775</u>	<u>825,764</u>	<u>647,618</u>
<b>Expenditures</b>					
Current:					
Professional fees	1,246	1,924	830	423	733
Contracted services	23,774	19,447	18,490	12,776	9,713
Other expenditures	1,826	1,556	4,522	3,757	1,170
Debt service:					
Principal retirement	365,000	305,000	215,000	175,000	120,000
Interest and fees	630,005	525,506	403,190	475,750	436,749
Debt issuance costs	-	-	214,536	-	-
Total expenditures	<u>1,021,851</u>	<u>853,433</u>	<u>856,568</u>	<u>667,706</u>	<u>568,365</u>
<b>Excess of Revenues Over Expenditures</b>	<u>609,933</u>	<u>449,426</u>	<u>147,207</u>	<u>158,058</u>	<u>79,253</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	150,533	123,085	3,849,267	-	130,971
Premium on debt issued	-	-	87,948	-	-
Deposit with escrow agent	-	-	(3,595,781)	-	-
Total other financing sources	<u>150,533</u>	<u>123,085</u>	<u>341,434</u>	<u>0</u>	<u>130,971</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>760,466</u>	<u>572,511</u>	<u>488,641</u>	<u>158,058</u>	<u>210,224</u>
<b>Fund Balance, Beginning of Year</b>	<u>1,897,183</u>	<u>1,324,672</u>	<u>836,031</u>	<u>677,973</u>	<u>467,749</u>
<b>Fund Balance, End of Year</b>	<u>\$ 2,657,649</u>	<u>\$ 1,897,183</u>	<u>\$ 1,324,672</u>	<u>\$ 836,031</u>	<u>\$ 677,973</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
97.0 %	98.1 %	98.9 %	99.2 %	99.5 %
0.3	0.6	0.6	0.6	0.5
<u>2.7</u>	<u>1.3</u>	<u>0.5</u>	<u>0.2</u>	<u>0.0</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.1	0.1	0.1	0.1	0.1
1.4	1.5	1.8	1.6	1.5
0.1	0.1	0.4	0.5	0.2
22.4	23.4	21.4	21.2	18.5
38.6	40.3	40.2	57.6	67.5
<u>-</u>	<u>-</u>	<u>21.4</u>	<u>-</u>	<u>-</u>
<u>62.6</u>	<u>65.4</u>	<u>85.3</u>	<u>81.0</u>	<u>87.8</u>
<u>37.4 %</u>	<u>34.6 %</u>	<u>14.7 %</u>	<u>19.0 %</u>	<u>12.2 %</u>

**Galveston County Municipal Utility District No. 44**  
**Board Members, Key Personnel and Consultants**  
**Year Ended June 30, 2019**

Complete District mailing address:	Galveston County Municipal Utility District No. 44 c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	
District business telephone number:	713.652.6500	
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):		June 7, 2018
Limit on fees of office that a director may receive during a fiscal year:		\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Joseph Ferro	Elected 05/18- 05/22	\$ 1,500	\$ 0	President
Jim Bollom	Elected 05/18- 05/22	1,200	45	Vice President
W.E. White	Appointed 05/17- 05/20	1,650	62	Secretary
Glenn Carmack	Elected 05/16- 05/20	1,650	62	Assistant Vice President
Terry Finkle	Appointed 01/18- 05/20	1,650	62	Assistant Secretary

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Galveston County Municipal Utility District No. 44**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended June 30, 2019**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Assessments of the Southwest, Inc.	07/19/05	\$ 13,237	Tax Assessor/ Collector
AVANTA Services	08/26/04	15,377	Bookkeeper
BKD, LLP	06/19/07	33,600	Auditor
Galveston Central Appraisal District	Legislative Action	12,313	Appraiser
LJA Engineering & Surveying, Inc.	08/26/04	82,381	Engineer
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/18/06	1,246	Delinquent Tax Attorney
RBC Capital Markets, LLC	08/26/04	114,825	Financial Advisor
Smith, Murdaugh, Little & Bonham, L.L.P.	05/02/17	65,558 153,496	General Counsel Bond Counsel
<b>Investment Officer</b>			
Pamela Lightbody	07/19/05	N/A	Bookkeeper

**APPENDIX B**

Specimen Municipal Bond Insurance Policy



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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