

OFFICIAL STATEMENT DATED MAY 27, 2020

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES 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 BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS –QUALIFIED TAX-EXEMPT OBLIGATIONS.”

NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P “AA” (stable outlook)
Underlying Rating: Moody’s “A3”
See “MUNICIPAL BOND RATING” and
“MUNICIPAL BOND INSURANCE” herein.

\$5,170,000

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 39
(A political subdivision of the State of Texas located within Galveston County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2020

Dated: June 1, 2020

Due: September 1, as shown below

Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent/Registrar,” “Paying Agent” or “Registrar”) in Dallas, Texas. Interest on the Bonds will accrue from June 1, 2020 and be payable on September 1, 2020 (three months of interest) and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof. The Bonds are subject to redemption prior to maturity as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “MUNICIPAL BOND INSURANCE” herein.

MATURITY SCHEDULE

Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2021	\$ 135,000	3.00 %	1.00 %	36422S NT5	2026	\$ 630,000	4.00 %	1.44 %	36422S NY4
2022	530,000	3.00	1.06	36422S NU2	2027	660,000 (c)	2.00	1.58	36422S NZ1
2023	550,000	3.00	1.14	36422S NV0	2028	680,000 (c)	2.00	1.74	36422S PA4
2024	580,000	4.00	1.22	36422S NW8	2029	495,000 (c)	2.00	1.80	36422S PB2
2025	605,000	4.00	1.31	36422S NX6	2030	305,000 (c)	2.00	1.91	36422S PC0

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from June 1, 2020, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Bonds maturing on and after September 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of Galveston County Municipal Utility District No. 39 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property 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 investment risks described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P. Houston, Texas, as Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about June 25, 2020.

SAMCO Capital

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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 representation must not be relied upon as having been authorized by the District.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this 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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 upon payment of the costs of duplication therefor.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or 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 this Official Statement until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in “PREPARATION OF THE OFFICIAL STATEMENT—Updating the Official Statement.”

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$5,459,329.31 (representing the par amount of the Bonds of \$5,170,000.00, plus a premium on the Bonds of \$333,012.85, less an Underwriter’s discount of \$43,683.54) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement.

THE FINANCING

- The Issuer* Galveston County Municipal Utility District No. 39 (the “District”), a political subdivision of the State of Texas, is located in Galveston County, Texas. See “THE DISTRICT.”
- The Issue* \$5,170,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are issued pursuant to a resolution (the “Bond Resolution”) of the District’s Board of Directors authorizing the issuance of the Bonds. The Bonds will be issued as fully registered bonds maturing in the years and in the amounts and paying interest at the rates shown on the cover hereof. Interest on the Bonds accrues from June 1, 2020 and is payable on September 1, 2020 (three months of interest), and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. See “THE BONDS.”
- Redemption*..... The Bonds maturing on and after September 1, 2027, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on September 1, 2026, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS.”
- Source of Payment* The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” 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 political subdivision or agency other than the District. See “THE BONDS—Source of and Security for Payment.”
- Authority for Issuance* The Bonds are the fifth series of bonds issued out of an aggregate of \$22,200,000 principal amount of unlimited tax refunding bonds authorized by the District’s voters at an election held on November 6, 2001, for the purpose of refunding outstanding bonds of the District. The Bonds are authorized by the District pursuant such election and the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance.”
- Payment Record* The District has previously issued nine series of unlimited tax bonds for water, sanitary sewer and drainage facilities, two series of unlimited tax park bonds, and four series of unlimited tax refunding bonds, \$21,605,000 principal amount of which were outstanding as of April 1, 2020 (the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.
- Use of Proceeds* Proceeds from the sale of the Bonds, together with other lawfully available funds of the District, will be used to currently refund and defease \$5,255,000 of the District’s Outstanding Bonds (defined below) in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. After the issuance of the Bonds, \$16,350,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”
- Qualified Tax-Exempt Obligations* The Bonds have been designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”

<i>Municipal Bond Rating and Municipal Bond Insurance</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds have also been assigned an underlying credit rating of “A3” by Moody’s Investors Service (“Moody’s”) without regard to credit enhancement. See “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” “INVESTMENT CONSIDERATIONS—Risk Factors on Municipal Bond Insurance” and “APPENDIX B.”
<i>Bond Counsel</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT,” “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Underwriter’s Counsel</i>	McCall, Parkhurst & Horton L.L.P, Houston, Texas.
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i>	The Bank of New York Mellon Trust Company, N. A., Dallas, Texas.
<i>Verification Agent</i>	Public Finance Partners LLC, Minneapolis, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “Investment Considerations- Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

EXTREME WEATHER

General 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 has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District The District constructs for the benefit of and conveyance to the City of League City (the “City”), the water and wastewater utilities needed to serve land being developed within the boundaries of the District. Upon conveyance of the facilities to the City, the City assumes responsibility for the operation and maintenance of the facilities. The District did not receive any reports that the City’s water supply and distribution system and wastewater treatment and collection system serving the property within the District’s boundaries sustained any material damage from Hurricane Harvey. Additionally, the District did not receive any reports of an interruption of water and sewer service to the District during or after the storm. According to a director who lives in the District, no taxable improvements within the District appear to have experienced flooding or other material damage as a result of Hurricane Harvey.

If a hurricane (or any other natural disaster) significantly damaged 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 necessity to 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 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 would be adversely affected. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events.”

THE DISTRICT

Description..... The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (“TCEQ”), on September 12, 2001, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 504 acres of land. See “THE DISTRICT.”

Location The District is located approximately 26 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of League City and within the boundaries of the Clear Creek Independent School District. The District is located approximately 3 miles west of Interstate Highway 45 on the south side of Farm-to-Market 518.

Status of Development..... The District has been developed primarily as single-family residential subdivisions of Westover Park, Sections One through Seventeen consisting of 1,394 lots and completed homes located on approximately 417 acres. For tax year 2019, the average home value was approximately \$296,000. Recreational facilities include 3 pools, a soccer field, a playground, a park and 2 lakes on approximately 38 acres of land in the District and a second recreation center with a large pool, separate children’s pool, a playground and two tennis courts on approximately 2 acres of land in the District.

Approximately 13 acres of land in the District are served with water and sewer trunk facilities for existing and future commercial projects, on which a day care center and a public storage facility have been constructed on 6 of such acres and a retail shopping center has been constructed on approximately 5 of such acres. There are approximately 36 acres that are non-developable (street right- of-way and drainage easements). See “THE DISTRICT—Status of Development.”

INVESTMENT CONSIDERATIONS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$407,944,137	(a)
Gross Direct Debt Outstanding	\$21,520,000	(b)
Estimated Overlapping Debt	<u>30,129,970</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$51,649,970	
Ratio of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	5.28%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	12.66%	
2019 Tax Rate:		
Debt Service.....	\$0.53	
Maintenance and Operations.....	<u>0.04</u>	
Total.....	\$0.57/\$100 A.V.	
Average percentage of total tax collections (2015-2019)	99.56%	
Average Annual Debt Service Requirement (2020-2032) of the Bonds and the Remaining Outstanding Bonds (“Average Annual Requirement (2020-2032)”)	\$2,046,290	(d)
Maximum Annual Debt Service Requirement (2030) of the Bonds and the Remaining Outstanding Bonds (“Maximum Annual Requirement”).....	\$2,092,888	(d)
Tax rate required to pay Average Annual Requirement (2020-2032) based upon:		
2019 Certified Taxable Assessed Valuation at a 95% collection rate	\$0.53	(e)
Tax rate required to pay Maximum Annual Requirement (2030) based upon:		
2019 Certified Taxable Assessed Valuation at a 95% collection rate	\$0.55	(e)
Status of Development as of March 2020 (f):		
Total residential Lots Developed.....	1,394	
Homes Completed.....	1,394	
Estimated Population	4,635	(g)

- (a) As certified by the Galveston County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) After the issuance of the Bonds and excludes the Refunded Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (c) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (d) See “DEBT SERVICE REQUIREMENTS.”
- (e) See “TAX DATA—Tax Adequacy Debt Service.”
- (f) See “THE DISTRICT—Status of Development”
- (g) The estimated population assumes 95% occupancy of the total number of completed homes and 3.5 persons per occupied single-family residence. Residential occupancy for the District is not available from the City.

OFFICIAL STATEMENT

\$5,170,000

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 39
(A political subdivision of the State of Texas located within Galveston County)

**UNLIMITED TAX REFUNDING BONDS
SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Galveston County Municipal Utility District No. 39 (the "District") of its \$5,170,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an election held within the District and a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District upon payment of the costs of duplication therefor.

PLAN OF FINANCING

Purpose

The proceeds of the Bonds, together with other lawfully available funds of the District, will be used to currently refund and defease outstanding portions of the District's original issue of Unlimited Tax Refunding Bonds, Series 2012 and Unlimited Tax Refunding Bonds, Series 2013 in order to achieve a reduction in the District's annual debt service expense. Such refunded portions reflected below are collectively referred to as the "Refunded Bonds." See "Refunded Bonds" below. A total of \$16,350,000 in principal amount of the District's Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds"). See "—Sources and Uses of Funds" below and "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Outstanding Bonds" and "—Debt Service Requirements."

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Refunded Bonds

Proceeds of the Bonds and lawfully available debt service funds, will be applied to currently refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date <u>September 1</u>	Series <u>2012</u>	Maturity Date <u>September 1</u>	Series <u>2013</u>
2021	\$ 140,000 (a)	2022	\$ 390,000
2022	145,000 (a)	2023	405,000
2023	155,000 (b)	2024	430,000
2024	155,000 (b)	2025	445,000
2025	165,000 (c)	2026	460,000
2026	170,000 (c)	2027	480,000
2027	180,000 (d)	2028	500,000
2028	190,000 (d)	2029	515,000
		2030	330,000
	\$ 1,300,000		\$ 3,955,000

Redemption Date: September 1, 2020 Redemption Date: September 1, 2020

- (a) Represents sinking fund payments on a term bond in the original principal amount of \$285,000, maturing on September 1, 2022.
- (b) Represents sinking fund payments on a term bond in the original principal amount of \$310,000, maturing on September 1, 2024.
- (c) Represents sinking fund payments on a term bond in the original principal amount of \$335,000, maturing on September 1, 2026.
- (d) Represents sinking fund payments on a term bond in the original principal amount of \$370,000, maturing on September 1, 2028.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, together with other lawfully available funds of the District, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$5,170,000.00
Plus: Premium on the Bonds.....	333,012.85
Plus: Transfer from Debt Service Fund	42,000.00
Total Sources of Funds.....	\$5,545,012.85
Uses of Funds:	
Deposit to Escrow Account	\$5,341,004.46
Issuance Expenses and Underwriters' Discount (a).....	204,008.39
Total Uses of Funds	\$5,545,012.85

- (a) Includes municipal bond insurance premium.

Escrow Agreement and Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A. as escrow agent (the "Escrow Agent").

The Bond Resolution provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolution further provides that from the proceeds of the sale of the Bonds and other available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and used to purchase United States Treasury Obligations (the "Escrowed Securities"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, or other securities authorized by Chapter 1207, Texas Government Code, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS." Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

THE BONDS

Description

The Bonds will be dated and accrue interest from June 1, 2020, with interest payable each September 1 and March 1, beginning September 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the registered owner of record (the "Registered Owner") as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

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 appraised, 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 Resolution, 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, or any entity other than the District.

Funds

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

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, 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. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution 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.

Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or 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 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 fewer 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 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 that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District on November 6, 2001, the voters of the District authorized the issuance of a total of \$22,200,000 principal amount of unlimited tax refunding bonds. After the issuance of the Bonds, \$20,715,000 principal amount of authorized and unissued unlimited tax refunding bonds will remain from such authorization. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, an election held within the District, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement. See "LEGAL MATTERS—Legal Proceedings."

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the 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 Resolution. While the Bonds are in the Book-Entry-Only System, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See "BOOK-ENTRY-ONLY SYSTEM."

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$4,805,000 principal amount of unlimited tax bonds for park and recreational facilities, \$34,200,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring a waterworks, sanitary sewer and storm sewer system, and \$22,200,000 principal amount of unlimited tax bonds for refunding purposes and could authorize additional amounts. After the issuance of the Bonds, \$2,165,000 principal amount of unlimited tax bonds for recreational facilities, \$4,970,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities, and \$20,715,000 principal amount of unlimited tax bonds for refunding purposes will remain authorized but unissued.

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

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" nor calling such an election at this time.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Issuance of additional bonds could dilute the investment security for the Bonds.

Dissolution by the City of League City

Under existing Texas law, because the District lies wholly within the corporate limits of the City of League City, the District must conform to a City of League City ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City of League City without the District's consent. If the District is dissolved, the City of League City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City of League City is a policy matter within the discretion of the Mayor and City Council of the City of League City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City of League City's financial capability to pay debt services on the Bonds if such dissolution were to occur.

Consolidation

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 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.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies 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. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. In the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

"(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them."

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

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

Defeasance

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, 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 the 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.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds, of each series 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. With respect to each series of the Bonds, one fully-registered Bond certificate will be issued of each such series for each maturity of the Bonds, each in the aggregate principal amount of such 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct

Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Initial Purchaser take any responsibility for the accuracy thereof.

UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY

All land in the District is located within the corporate limits of the City of League City (the "City"). The City and the District have entered into the Utility Agreement, effective June 13, 2000, which obligates the District to acquire, construct and extend water, wastewater and storm drainage facilities (the "System") to serve land in the District and, when completed in accordance with plans and specifications approved by the City, 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 the City.

The District has agreed to extend the System to serve future users as necessary so that ultimately all landowners 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 continued development within the District, the City's performance under the provisions of the Utility Agreement, and satisfaction of certain determinations of economic feasibility by the Board and the TCEQ, and TCEQ approval and the ability of the District to sell bonds.

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Natural Resources Conservation Commission (predecessor to the TCEQ) dated September 12, 2001. The creation of the District was confirmed at an election held within the District on November 6, 2001. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

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 is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, if approved by the City of League City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and, subject to the granting of road powers by the TCEQ, develop and finance roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of League City, within which the District is located, the District is required to observe certain requirements of the City of League City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, roads, fire-fighting facilities and park and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of League City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City of League City and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Location of District

The District consists of approximately 504 acres of land. The District is located approximately 26 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of League City and within the boundaries of Clear Creek Independent School District. The District is located approximately 3 miles west of Interstate Highway 45 on the south side of Farm-to-Market 518.

Status of Development

The District has been developed primarily as single-family residential subdivisions of Westover Park, Sections One through Seventeen consisting of 1,394 lots and completed homes located on approximately 417 acres. For tax year 2019, the average home value was approximately \$296,000. Recreational facilities include 3 pools, a soccer field, a playground, a park and 2 lakes on approximately 38 acres of land in the District and a second recreation center with a large pool, separate children’s pool, a playground and two tennis courts on approximately 2 acres of land in the District.

Approximately 13 acres of land in the District are served with water and sewer trunk facilities for existing and future commercial projects, on which a day care center and a public storage facility have been constructed on 6 of such acres and a retail shopping center has been constructed on approximately 5 of such acres. There are approximately 36 acres that are non-developable (street right- of-way and drainage easements).

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Two of the Board members reside within the District and the three remaining Board members own land within the District subject to a note and deed of trust in favor of the original developer of the land in the District. Directors are elected by the voters within the District for four-year staggered terms. Directors elections are held only in even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Parker	President	May 2022
Mark Marquis	Vice President	May 2024
Courtney Boudreaux	Secretary	May 2024
Becky Murphy	Asst. Vice President	May 2022
Omar Flores	Asst. Secretary	May 2024

While the District does not employ any full-time employees, it has contracted for certain services as follows:

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by Galveston County Appraisal District. The District contracts with Bob Leared Interests to serve as Tax Assessor/Collector.

Bookkeeper

The District has engaged Myrtle Cruz, Inc. to serve as the District's bookkeeper.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's facilities is Van De Wiele & Vogler, Inc. (the “Engineer”).

Attorney

The District engages Allen Boone Humphries Robinson LLP as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Financial Advisor

Masterson Advisors LLC (the “Financial Advisor”) serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ending August 31, 2019 were audited by the independent account firm of McGrath & Co., PLLC. See “APPENDIX A” for a copy of the audited financial statement of the District as of August 31, 2019.

PARK SYSTEM

The park system includes landscaping and irrigations systems in open areas within Westover Park Subdivision. The park system is connected by sidewalks within the subdivision.

In addition to the park system, recreational facilities include 3 pools, a soccer field, a playground, a park and 2 lakes on approximately 38 acres of land in the District and a second recreation center with a large pool, separate children’s pool, a playground and two tennis courts on approximately 2 acres of land in the District.

THE SYSTEM

Regulation

Construction and operation of the water, sanitary sewer and storm drainage system serving the District (the “System”), which is owned, maintained, and operated by the City of League City, is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the City of League City and Galveston County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

Water Supply and Wastewater Treatment

Permanent water supply and wastewater treatment for the District are provided by the City of League City pursuant to the Utility Agreement. The water supplied by the City of League City is purchased from the Gulf Coast Water Authority, which obtains surface water from the City of Houston Southeast Water Purification Plant through a long-term contract and delivers it to the City of League City via a 39-inch transmission line to a location along Highway 3. In addition, a 24-inch transmission line feeds water to the Northside Pump Station close to the District. Water supply to the District is transported from the City of League City's Webster Pump Station. The City of League City also has a 2 million gallon elevated storage tank approximately 1/2 mile east of Westover Park on Candlewood Drive. Wastewater treatment is currently available from the City of League City's Southwest Wastewater Treatment Plant, located south of the District. The District has been allocated 1,411 equivalent single-family connections from the Southwest Plant. Water supply and wastewater treatment capacities for future development will require additional water supply and wastewater treatment capacity allocations by the City of League City as provided in the Utility Agreement.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

The District has constructed water distribution, wastewater collection and storm drainage facilities to serve 1,394 lots in Westover Park, Sections One through Five, Six-A, Six-B, Seven, Eight-A, Eight-B, Nine, Ten, Eleven-A, Eleven-B, Eleven-C, Twelve, Thirteen-A, Thirteen-B, Fourteen-A, Fourteen-B, Fifteen, Sixteen, Seventeen-A and Seventeen-B. Additionally, approximately 13 acres of land in the District are served with water and sewer trunk facilities for existing and future commercial projects.

Ownership and Operations

The District finances and constructs the System, and thereafter conveys the components of the System to the City of League City upon completion, subject to the District’s capacity rights. The System is owned, maintained, and operated by the City of League City. The City of League City charges and collects the fees associated with the System. The District receives no revenues from the operation of the System; the costs of the administration of the District are paid from maintenance tax revenue. See “TAX DATA—Historical Tax Rate.”

500-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 0.2% chance of probable inundation, also known as the 500-year flood plain, is depicted on these maps. The "500-year flood plain" (or 0.2% 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 0.2 percent chance of occurring in any given year. Generally speaking, homes must be built above the 500-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 500-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to all current standards. According to the Engineer, less than 2% of the land within the District is located within the 500-year flood plain as designated by the most recent FEMA FIRM No. 48267C0207G dated August 15, 2019. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events.”

FINANCIAL STATEMENT CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$407,944,137	(a)
Gross Direct Debt Outstanding	\$21,520,000	(b)
Estimated Overlapping Debt	<u>30,129,970</u>	(c)
Gross Direct Debt and Overlapping Debt.....	\$51,649,970	
Ratio of Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation	5.28%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation	12.66%	

- (a) As certified by the Galveston County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) After issuance of the Bonds. Excludes the Refunded Bonds.
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.”

Cash and Investment Balances (unaudited as of April 7, 2020)

General Fund	Cash and Temporary Investments	\$363,711
Debt Service Fund	Cash and Temporary Investments	\$3,293,855 (a)

- (a) Includes funds in the amount of \$1,757,863 for the September 1, 2020 debt service payment. Neither Texas law nor any bond resolution (including the Bond Resolution) requires the District to maintain any minimum balance in the Debt Service Fund. \$42,000 will be applied towards the issuance of the Bonds.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the District portfolio.

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

<u>Series</u>	<u>Original Principal Amount</u>	<u>Principal Amount Currently Outstanding</u>	<u>Refunded Bonds</u>	<u>Remaining Outstanding Bonds</u>
2009A (a)	\$ 1,190,000	\$ 570,000	\$ -	\$ 570,000
2012 (b)	2,375,000	1,440,000	1,300,000	140,000
2013 (b)	6,830,000	4,700,000	3,955,000	745,000
2013A	3,045,000	2,310,000	-	2,310,000
2014 (b)	3,770,000	2,945,000	-	2,945,000
2014A	4,390,000	3,570,000	-	3,570,000
2015 (a)	1,450,000	1,100,000	-	1,100,000
2019 (b)	4,970,000	4,970,000	-	4,970,000
Total	\$ 28,020,000	\$ 21,605,000	\$ 5,255,000	\$ 16,350,000
The Bonds				5,170,000
The Bonds and Remaining Outstanding Bonds				\$ 21,520,000

(a) Unlimited tax park bonds.

(b) Unlimited tax refunding bonds.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$5,255,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2020	\$ 2,134,235	\$ 87,198		\$ 37,963	\$ 37,963	\$ 2,085,000
2021	2,111,951	314,395	\$ 135,000	151,850	286,850	2,084,406
2022	2,111,914	705,195	530,000	147,800	677,800	2,084,519
2023	2,110,539	712,195	550,000	131,900	681,900	2,080,244
2024	2,115,341	718,060	580,000	115,400	695,400	2,092,681
2025	2,117,556	723,050	605,000	92,200	697,200	2,091,706
2026	2,113,594	723,925	630,000	68,000	698,000	2,087,669
2027	2,118,244	733,600	660,000	42,800	702,800	2,087,444
2028	2,117,013	741,250	680,000	29,600	709,600	2,085,363
2029	2,122,638	542,875	495,000	16,000	511,000	2,090,763
2030	2,122,925	341,138	305,000	6,100	311,100	2,092,888
2031	1,968,200	-			-	1,968,200
2032	1,670,894	-			-	1,670,894
Total	\$ 26,935,042	\$ 6,342,880	\$ 5,170,000	\$ 839,613	\$ 6,009,613	\$ 26,601,775

Average Annual Debt Service Requirements (2020-2032)\$2,046,290
 Maximum Annual Debt Service Requirements (2030)\$2,092,888

Estimated Overlapping Debt Statement

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and 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 should rely upon such information as being accurate or complete. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Clear Creek Independent School District.....	\$ 979,890,000	4/30/2020	1.70%	\$ 16,658,130
Galveston County.....	229,269,447	4/30/2020	1.33%	3,049,284
City of League City.....	223,660,000	4/30/2020	4.66%	10,422,556
Total Estimated Overlapping Debt.....				\$ 30,129,970
The District.....	21,520,000 (a)	Current	100.00%	21,520,000
Total Direct and Estimated Overlapping Debt.....				\$ 51,649,970

Ratio of Estimated Direct and Overlapping Debt to 2019 Certified Taxable Assessed Valuation..... 12.66%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2019

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Galveston County	\$ 0.504396
City of League City	0.548581
Clear Creek Independent School District	1.310000
Galveston County Road and Flood	<u>0.011741</u>
Total Overlapping Tax Rate.....	\$ 2.374718
The District.....	<u>0.57000</u>
Total Tax Rate.....	\$ 2.944718

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General Fund

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds or the Remaining Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Remaining Outstanding Bonds, at the discretion and upon action of the Board. Because the District receives water and sewer service from the City of League City, the District's General Fund is used primarily for administrative expenses of the District. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds or the Remaining Outstanding Bonds.

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for fiscal years August 31, 2016 through 2019 and from the District's Bookkeeper for the period ended March 31, 2020. Reference is made to such statements and records for further and more complete information.

	9/1/2019 to 3/31/2020 (a)	Fiscal Year Ended August 31			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 160,249	\$ 154,506	\$ 154,499	\$ 141,672	\$ 185,015
Investment Revenues	3,380	3,982	2,500	1,000	470
Total Revenues	\$ 163,630	\$ 158,488	\$ 156,999	\$ 142,672	\$ 185,485
Expenditures					
Professional Fees	\$ 36,056	\$ 39,394	\$ 43,757	\$ 38,471	\$ 48,383
Contracted Services	6,950	13,556	10,881	13,250	12,200
Repairs and Maintenance	-	-	-	-	30,000
Administrative	7,371	9,307	9,891	10,273	10,893
Park Contribution	-	-	55,000	-	-
Total Expenditures	\$ 50,377	\$ 62,257	\$ 119,529	\$ 61,994	\$ 101,476
Revenues Over (Under) Expenditures	\$ 113,253	\$ 96,231	\$ 37,470	\$ 80,678	\$ 84,009
Other Sources & Uses	\$ (304,650) (b)	\$ -	\$ -	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 557,487	\$ 461,256	\$ 423,786	\$ 343,108	\$ 259,099
Fund Balance (End of Year)	\$ 366,090	\$ 557,487	\$ 461,256	\$ 423,786	\$ 343,108

(a) Unaudited. Provided by the District's Bookkeeper.

(b) Funds used for defeasance of outstanding debt of the District and costs related to such defeasance.

TAX DATA

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information.

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of April 30, 2020 (a)	
				Amount	Percent
2015	\$ 309,229,449	\$0.80	\$2,473,836	\$ 2,471,702	99.91%
2016	354,752,126	0.68	2,412,314	2,408,431	99.84%
2017	386,275,256	0.62	2,394,907	2,391,246	99.85%
2018	387,594,794	0.61	2,364,329	2,357,559	99.71%
2019	407,944,137	0.57	2,325,282	2,289,935	98.48%

(a) Unaudited.

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. No split payments are allowed, and no discounts are allowed.

Historical Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.53	\$ 0.57	\$ 0.58	\$ 0.64	\$ 0.74
Maintenance and Operations	0.04	0.04	0.04	0.04	0.06
Total	\$ 0.57	\$ 0.61	\$ 0.62	\$ 0.68	\$ 0.80

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 in the amount of \$0.53 per \$100 of taxable 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 maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On November 6, 2001, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 of taxable assessed valuation. For the 2019 tax year, the District levied a tax for maintenance and operations in the amount of \$0.04 per \$100 assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For 2020, the District adopted an exemption of \$10,000 of the appraised value of a residential homestead of persons who are disabled or 65 years of age or older. The District does not grant a general homestead exemption.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established 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 Property Tax Code.

Summary of Assessed Valuation

The following summary of the 2019, 2018 and 2017 Certified Taxable Assessed Valuations are provided by the District's Tax Assessor/Collector based on information provided by the Appraisal District and contained in the 2019, 2018 and 2017 tax rolls of the District.

	2019 Taxable <u>Assessed Valuation</u>	2018 Taxable <u>Assessed Valuation</u>	2017 Taxable <u>Assessed Valuation</u>
Land	\$ 70,072,640	\$ 70,072,640	\$ 70,072,640
Improvements	348,910,845	326,298,872	326,503,785
Personal Property	1,715,120	1,517,195	1,542,126
Exemptions	(12,754,468)	(10,293,913)	(11,843,295)
Total	<u>\$ 407,944,137</u>	<u>\$ 387,594,794</u>	<u>\$ 386,275,256</u>

Principal Taxpayers

The following list of principal taxpayers was provided by the District's tax assessor/collector and represents the principal taxpayers' value as a percentage of the certified 2019 Certified Taxable Assessed Valuation of \$407,944,137. This represents ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Mosaic Retail II LLC	Land & Improvements	\$ 3,888,550	0.95%
Storage Choice - Westover Park	Land & Improvements	2,500,000	0.61%
Confidential	Land & Improvements	2,353,060	0.58%
American Homes 4 Rent	Land & Improvements	853,023	0.21%
Individual	Land & Improvements	773,700	0.19%
Tandy Way Properties LLC	Land & Improvements	599,960	0.15%
JSJW #2 LLC	Land, Improvements & Personal	555,010	0.14%
Individual	Land & Improvements	516,260	0.13%
Individual	Land & Improvements	468,270	0.11%
Individual	Land & Improvements	465,542	0.11%
Total		<u>\$ 12,973,375</u>	<u>3.18%</u>

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 Taxable Assessed Valuation, no use of available funds, and utilize tax rates necessary to pay the District's average annual debt service requirements and maximum annual debt service requirements on the Remaining Outstanding Bonds and the Bonds.

Average annual debt service requirement (2020-2032)	\$2,046,290
\$0.53 tax rate on the 2019 Certified Taxable Assessed Valuation of \$407,944,137 at a 95% collection rate produces	\$2,053,999
Maximum annual debt service requirement (2030)	\$2,092,888
\$0.55 tax rate on the 2019 Certified Taxable Assessed Valuation of \$407,944,137 at a 95% collection rate produces	\$2,131,508

TAX 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 Remaining Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully herein under “THE BONDS—Source of and Security for Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

Title I of the Texas 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 responsibility for reviewing and equalizing the values established by the appraisal district. The Galveston County 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 County Appraisal Review Board (the “Appraisal Review Board”).

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; 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 sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approves 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 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, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount

equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse's residence homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to the subsequent homesteads. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads 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 before July 1.

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from 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 fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. 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

Galveston County or the City of League City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Galveston County, the District, and the City of League 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. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

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. Generally, 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. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its 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 here. Landowners wishing to avail themselves of the

agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land and timberland.

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.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the 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. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax 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. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, 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 districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed 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 Unit: 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, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a 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 are classified as Other 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 rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates 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, subject to the restrictions on residential homesteads described above under “Levy and Collection of Taxes.” 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 cost of suit and sale, 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 all 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. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See “INVESTMENT CONSIDERATIONS—Tax Collection Limitations.”

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of the City of League City, Galveston County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Source of and Security for Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that taxable property within the District will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies and Bankruptcy Limitations” within.

Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”) which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”).

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Extreme Weather Events

The greater Houston area 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 has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

The District constructs for the benefit of and conveyance to the City, the water and wastewater utilities needed to serve land being developed within the boundaries of the District. Upon conveyance of the facilities to the City, the City assumes responsibility for the operation and maintenance of the facilities. The District did not receive any reports that the City's water supply and distribution system and wastewater treatment and collection system serving the property within the District's boundaries sustained any material damage from Hurricane Harvey. Additionally, the District did not receive any reports of an interruption of water and sewer service to the District during or after the storm. Further, according to a director who lives in the District, no taxable improvements within the District appear to have experienced flooding or other material damage as a result of Hurricane Harvey.

If a hurricane (or any other natural disaster) significantly damaged 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 necessity to 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 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 would 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.

Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Taxable Assessed Valuation of the District is \$407,944,137. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,092,888 (2030) and the average annual debt service requirements will be \$2,046,290 (2020-2032). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.55 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,092,888 and a tax rate of \$0.53 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$2,046,290. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2019 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event the District's assessed valuation does not continue to increase or in the event major taxpayers do not pay their District taxes timely. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After the issuance of the Bonds, \$4,970,000 of the unlimited tax bonds for water, sanitary sewer and drainage facilities, \$2,165,000 of the unlimited tax bonds for park and recreational facilities and \$20,715,000 of the unlimited tax bonds for refunding purposes will remain authorized but unissued. The District is also authorized to issue bonds to refund or redeem its outstanding debt. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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 market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. 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. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, if it fails to make payments into any fund or funds created in the Bond Resolution, or if it defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies 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. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay, or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

Environmental Regulations

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

- Requiring permits for construction and operation of water 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-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, 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, the 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, the 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 the 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 the 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: Brazoria, 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) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) 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 within 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 the EPA’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 District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ 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. In order to maintain MS4 Permit compliance, the District is partnering with the city of League City (the “City”), to participate in the City’s program to develop, implement, and maintain the required plan (the “MS4 Permit Plan”) as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City’s MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Marketability

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

Changes in Tax Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) for the purpose of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer (the “Insurer”) and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the 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 RATING” and “MUNICIPAL BOND INSURANCE.”

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

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 by the District, 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 Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and 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 “PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information

contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as general 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 and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

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

No Material Adverse Change

The obligations of the Underwriter 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 Preliminary Official Statement.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes, and interest 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 Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution 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 the Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. In addition, the District will rely on the report of Public Finance Partners LLC, regarding the mathematical accuracy of certain computations. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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.

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.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign its municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody’s Investors Service (Moody’s) has also assigned an underlying credit rating of “A3” to the Bonds without regard to credit enhancement.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P or Moody’s, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds and; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

“THE DISTRICT” – Van De Wiele & Vogler, Inc. (“Engineer”), and Records of the District (“Records”); “PARK SYSTEM” – Engineer; “THE SYSTEM” - Engineer; “FINANCIAL STATEMENT” - Galveston County Appraisal District and Bob Leared Interests, Tax Assessor/Collector; “ESTIMATED OVERLAPPING DEBT STATEMENT” - Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” – Bob Leared Interests; “MANAGEMENT” - District Records; “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED-Debt Service Requirements)” - Financial Advisor; “THE BONDS,” “TAX PROCEDURES,” and “LEGAL MATTERS” - Allen Boone Humphries Robinson LLP.

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

Consultants

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

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and in particular that information included in the sections entitled “THE DISTRICT” and “THE SYSTEM” has been provided by Van De Wiele & Vogler, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations has been provided by the Galveston County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Galveston County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests, and is included herein in reliance upon the authority of said firm as an expert in assessing and collecting taxes.

Auditor: The District's financial statements for the fiscal year ending August 31, 2019 were audited by McGrath & Co., PLLC, Certified Public Accountants. See APPENDIX A for a copy of the District's audited financial statements for the fiscal year ended August 31, 2019.

Bookkeeper: The information related to the “unaudited” summary of the District's General Fund as it appears in “FINANCIAL STATEMENT CONCERNING THE DISTRICT (UNAUDITED)—General Fund” has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement 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 are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the Registered 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "THE SYSTEM," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Financial Statements of the District.) The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any financial statements provided by the District shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable year to the MSRB within such six month period and audited financial statements when the audit becomes available.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by February 28 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the "Rule"). 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 Resolution 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.”

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered or 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 from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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 Registered and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Galveston County Municipal Utility District No. 39, as of the date shown on the cover page.

/s/ David Parker
President, Board of Directors
Galveston County Municipal Utility District No. 39

ATTEST:

/s/ Courtney Boudreaux
Secretary, Board of Directors
Galveston County Municipal Utility District No. 39

APPENDIX A

Financial Statement of the District for the year ended August 31, 2019

**GALVESTON COUNTY MUNICIPAL
UTILITY DISTRICT NO. 39**

GALVESTON COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2019

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Galveston County Municipal Utility District No. 39
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. 39, as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

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

***Board of Directors
Galveston County Municipal Utility District No. 39
Galveston County, Texas***

Opinion

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 Galveston County Municipal Utility District No. 39, as of August 31, 2019, and the respective changes in financial position thereof for the year then ended in conformity 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 information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

W.C. Galt & Co, P.C.

Houston, Texas
December 3, 2019

Management's Discussion and Analysis

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***Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019***

Using this Annual Report

Within this section of the financial report of Galveston County Municipal Utility District No. 39 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at August 31, 2019, was negative \$16,315,460. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of League City. A comparative summary of the District's overall financial position, as of August 31, 2019 and 2018, is as follows:

	2019	2018
Current and other assets	\$ 2,337,258	\$ 2,494,020
Capital assets	2,639,607	2,809,729
Total assets	<u>4,976,865</u>	<u>5,303,749</u>
Total deferred outflows of resources	<u>409,641</u>	<u>361,435</u>
Current liabilities	1,442,197	1,376,814
Long-term liabilities	20,259,769	21,658,650
Total liabilities	<u>21,701,966</u>	<u>23,035,464</u>
Net position		
Net investment in capital assets	(644,491)	(653,513)
Restricted	1,624,817	1,649,703
Unrestricted	<u>(17,295,786)</u>	<u>(18,366,470)</u>
Total net position	<u>\$ (16,315,460)</u>	<u>\$ (17,370,280)</u>

Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019

The total net position of the District increased during the current fiscal year by \$1,054,820. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2019</u>	<u>2018</u>
Revenues		
Property taxes, penalties and interest	\$ 2,374,080	\$ 2,405,114
Other	52,313	35,717
Total revenues	<u>2,426,393</u>	<u>2,440,831</u>
Expenses		
Operating and administrative	117,290	175,128
Debt interest and fees	947,972	983,659
Developer interest		8,799
Debt issuance costs	136,189	
Depreciation and amortization	170,122	170,122
Total expenses	<u>1,371,573</u>	<u>1,337,708</u>
Change in net position	1,054,820	1,103,123
Net position, beginning of year	<u>(17,370,280)</u>	<u>(18,473,403)</u>
Net position, end of year	<u>\$ (16,315,460)</u>	<u>\$ (17,370,280)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of August 31, 2019, were \$2,164,059, which consists of \$557,487 in the General Fund and \$1,606,572 in the Debt Service Fund.

General Fund

A comparative summary of the General Fund's financial position as of August 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Total assets	<u>\$ 572,882</u>	<u>\$ 469,505</u>
Total liabilities	\$ 13,484	\$ 6,807
Total deferred inflows	1,911	1,442
Total fund balance	<u>557,487</u>	<u>461,256</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 572,882</u>	<u>\$ 469,505</u>

***Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	<u>2019</u>	<u>2018</u>
Total revenues	\$ 158,488	\$ 156,999
Total expenditures	<u>(62,257)</u>	<u>(119,529)</u>
Revenues over expenditures	<u>\$ 96,231</u>	<u>\$ 37,470</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resource in the General Fund is from a property tax levy, which is dependent upon assessed values in the District and a maintenance tax rate set by the District. Property tax revenues in the District have remained fairly consistent from year to year.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of August 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Total assets	<u>\$ 1,648,530</u>	<u>\$ 1,649,710</u>
Total liabilities	\$ 4,058	\$ 7
Total deferred inflows	37,900	26,608
Total fund balance	<u>1,606,572</u>	<u>1,623,095</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,648,530</u>	<u>\$ 1,649,710</u>

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	<u>2019</u>	<u>2018</u>
Total revenues	\$ 2,256,141	\$ 2,281,350
Total expenditures	<u>(2,687,928)</u>	<u>(2,270,440)</u>
Revenues over/(under) expenditures	(431,787)	10,910
Other changes in fund balance	<u>415,264</u>	<u></u>
Net change in fund balance	<u>\$ (16,523)</u>	<u>\$ 10,910</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

***Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019***

During the current year, the District issued \$4,970,000 in refunding bonds to refund \$4,810,000 of its outstanding Series 2006A, Series 2009, and Series 2011 bonds. This refunding will save the District \$961,904 in future debt service requirements.

Additionally, the District used \$301,163 in available funds to redeem \$300,000 of its outstanding Series 2006A Unlimited Tax Bonds prior to the stated maturity of September 1, 2032. This early redemption will save the District \$177,338 in future debt service payments.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of August 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	\$ -	\$ 248,879
Total fund balance	\$ -	\$ 248,879

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2019	2018
Total revenues	\$ -	\$ 715
Total expenditures	(20)	(115,177)
Revenues under expenditures	(20)	(114,462)
Other changes in fund balance	(248,859)	
Net change in fund balance	\$ (248,879)	\$ (114,462)

During the current fiscal year, the District transferred \$248,859 from the Capital Projects Fund to the Debt Service Fund to redeem a portion of the District's Series 2006A Unlimited Tax Bonds prior to their stated maturity. As of August 31, 2019, the Capital Projects Fund had no remaining assets or liabilities.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$14,831 greater than budgeted. The *Budgetary Comparison Schedule* on page 30 of this report provides variance information per financial statement line item.

Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019

Capital Assets

Capital assets held by the District at August 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Capital assets being depreciated/amortized		
Impact fees	\$ 2,679,541	\$ 2,679,541
Parks and recreational facilities	<u>1,058,720</u>	<u>1,058,720</u>
	<u>3,738,261</u>	<u>3,738,261</u>
Less accumulated depreciation/amortization		
Impact fees	(702,047)	(602,506)
Parks and recreational facilities	<u>(396,607)</u>	<u>(326,026)</u>
	<u>(1,098,654)</u>	<u>(928,532)</u>
Capital assets, net	<u>\$ 2,639,607</u>	<u>\$ 2,809,729</u>

Long-Term Debt and Related Liabilities

At August 31, 2019 and 2018, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2019</u>	<u>2018</u>
2006A	\$ -	\$ 1,580,000
2009		2,030,000
2009A	870,000	910,000
2011		1,595,000
2012R	1,440,000	1,570,000
2013R	4,700,000	5,055,000
2013A	2,310,000	2,445,000
2014R	2,945,000	3,250,000
2014A	3,570,000	3,760,000
2015 Park	1,100,000	1,185,000
2019R	4,970,000	
	<u>\$ 21,905,000</u>	<u>\$ 23,380,000</u>

During the current year, the District issued \$4,970,000 in unlimited tax refunding bonds. At August 31, 2019, the District had \$4,970,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$2,165,000 for parks and recreational facilities; and \$21,004,379 for refunding purposes.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District.

***Galveston County Municipal Utility District No. 39
Management's Discussion and Analysis
August 31, 2019***

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2019 Actual</u>	<u>2020 Budget</u>
Total revenues	\$ 158,488	\$ 151,000
Total expenditures	<u>(62,257)</u>	<u>(63,150)</u>
Revenues over expenditures	96,231	87,850
Beginning fund balance	<u>461,256</u>	<u>557,487</u>
Ending fund balance	<u>\$ 557,487</u>	<u>\$ 645,337</u>

Property Taxes

The District's property tax base increased approximately \$20,465,000 for the 2019 tax year from \$387,594,794 to \$408,059,311. This increase was due to new construction in the District and increased property values. For the 2019 tax year, the District has levied a maintenance tax rate of \$0.04 per \$100 of assessed value and a debt service tax rate of \$0.53 per \$100 of assessed value, for a total combined tax rate of \$0.57 per \$100. Tax rates for the 2018 tax year were \$0.04 per \$100 for maintenance and operations and \$0.57 per \$100 for debt service for a combined total of \$0.61 per \$100 of assessed value.

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Basic Financial Statements

Galveston County Municipal Utility District No. 39
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 432,224	\$ 887,004	\$ 1,319,228	\$ -	\$ 1,319,228
Investments	128,467	725,629	854,096		854,096
Taxes receivable	1,911	37,900	39,811		39,811
Internal balances	8,408	(8,408)			
Accrued interest receivable	1,557	6,405	7,962		7,962
Prepaid items	315		315		315
Prepaid bond insurance, net				115,846	115,846
Capital assets, net				2,639,607	2,639,607
Total Assets	<u>\$ 572,882</u>	<u>\$ 1,648,530</u>	<u>\$ 2,221,412</u>	<u>2,755,453</u>	<u>4,976,865</u>
Deferred Outflows of Resources					
Deferred difference on refunding				409,641	409,641
Liabilities					
Accounts payable	\$ 13,484	\$ -	\$ 13,484		13,484
Other payables		140	140		140
Accrued interest payable		3,918	3,918	19,655	23,573
Long-term debt					
Due within one year				1,405,000	1,405,000
Due after one year				20,259,769	20,259,769
Total Liabilities	<u>13,484</u>	<u>4,058</u>	<u>17,542</u>	<u>21,684,424</u>	<u>21,701,966</u>
Deferred Inflows of Resources					
Deferred property taxes	1,911	37,900	39,811	(39,811)	
Fund Balances/Net Position					
Fund Balances					
Nonspendable	315		315	(315)	
Restricted		1,606,572	1,606,572	(1,606,572)	
Unassigned	557,172		557,172	(557,172)	
Total Fund Balances	<u>557,487</u>	<u>1,606,572</u>	<u>2,164,059</u>	<u>(2,164,059)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 572,882</u>	<u>\$ 1,648,530</u>	<u>\$ 2,221,412</u>		
Net Position					
Net investment in capital assets				(644,491)	(644,491)
Restricted for debt service				1,624,817	1,624,817
Unrestricted				(17,295,786)	(17,295,786)
Total Net Position				<u>\$ (16,315,460)</u>	<u>\$ (16,315,460)</u>

See notes to basic financial statements.

Galveston County Municipal Utility District No. 39

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended August 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 154,506	\$ 2,201,692	\$ -	\$ 2,356,198	\$ 7,095	\$ 2,363,293
Penalties and interest		6,118		6,118	4,669	10,787
Investment earnings	3,982	48,331		52,313		52,313
Total Revenues	158,488	2,256,141		2,414,629	11,764	2,426,393
Expenditures/Expenses						
Operating and administrative						
Professional fees	39,394			39,394		39,394
Contracted services	13,556	39,837		53,393		53,393
Administrative	9,307	2,676	20	12,003		12,003
Other		12,500		12,500		12,500
Debt service						
Principal		1,335,000		1,335,000	(1,335,000)	
Interest and fees		861,726		861,726	86,246	947,972
Early extinguishment of debt		300,000		300,000	(300,000)	
Debt issuance costs		136,189		136,189		136,189
Depreciation/amortization					170,122	170,122
Total Expenditures/Expenses	62,257	2,687,928	20	2,750,205	(1,378,632)	1,371,573
Revenues Over/(Under)						
Expenditures	96,231	(431,787)	(20)	(335,576)	335,576	
Other Financing Sources/(Uses)						
Proceeds from sale of refunding bonds		4,970,000		4,970,000	(4,970,000)	
Payment to refunded bond escrow agent		(4,803,595)		(4,803,595)	4,803,595	
Internal transfers		248,859	(248,859)			
Net Change in Fund Balances	96,231	(16,523)	(248,879)	(169,171)	169,171	
Change in Net Position					1,054,820	1,054,820
Fund Balance/Net Position						
Beginning of the year	461,256	1,623,095	248,879	2,333,230	(19,703,510)	(17,370,280)
End of the year	\$ 557,487	\$ 1,606,572	\$ -	\$ 2,164,059	\$ (18,479,519)	\$ (16,315,460)

See notes to basic financial statements.

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Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Galveston County Municipal Utility District No. 39 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Natural Resource Conservation Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated September 12, 2001, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on September 13, 2001, and the first bonds were issued on July 8, 2003.

The District’s primary activities include construction of water, sewer, drainage, and park and recreational facilities. As further discussed in Note 8, the District transfers water, sewer, and drainage facilities to the City of League City upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll, or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer, drainage, and parks and recreational facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Prepaid Bond Insurance

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At August 31, 2019, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of impact fees paid to the City of League City and parks and recreational facilities, are depreciated or amortized using the straight-line method as follows:

Assets	Useful Life
Impact fees	40 years [max]
Parks and recreational facilities	15 years

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from refunding bond transactions in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of property taxes levied for debt service in the Debt Service Fund.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables and the useful lives and impairment of capital assets. Estimates and assumptions are reviewed periodically, and the effects of the revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 2,164,059
Prepaid bond insurance is recorded as an expenditure at the fund level, but is recorded as a prepaid asset and amortized to interest expense over the life of the bonds in the government wide statements.		115,846
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental		
Historical cost	\$ 3,738,261	
Less accumulated depreciation/amortization	<u>(1,098,654)</u>	
Change due to capital assets		2,639,607
The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.		409,641
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(21,664,769)	
Interest payable on bonds	<u>(19,655)</u>	
Change due to long-term debt		(21,684,424)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
Property taxes receivable	27,335	
Penalty and interest receivable	<u>12,476</u>	
Change due to property taxes		39,811
Total net position - governmental activities		<u><u>\$ (16,315,460)</u></u>

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ (169,171)

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. 11,764

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Proceeds from sale of refunding bonds	\$ (4,970,000)	
Early extinguishment of debt	300,000	
Principal payments	1,335,000	
Payment to refunded bond escrow agent	4,803,595	
Interest expense	<u>(86,246)</u>	
		1,382,349

In the *Statement of Activities*, the cost of capital assets is charged to depreciation/amortization expense over the estimated useful life of the asset. (170,122)

Change in net position of governmental activities \$ 1,054,820

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The Act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or 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, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of August 31, 2019, the District's investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>
Certificates of deposit	General	\$ 128,467
	Debt Service	725,629
Total		<u>\$ 854,096</u>

The District's investments in certificates of deposit are reported at cost.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at August 31, 2019, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 908	Maintenance tax collections not remitted as of year end.
General Fund	Debt Service Fund	7,500	Debt issuance costs paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 4 – Interfund Balances and Transactions (continued)

A summary of internal transfers for the current fiscal year is as follows:

Transfers Out	Transfers In	Amounts	Purpose
Capital Projects Fund	Debt Service Fund	\$ 248,859	To cover a portion of the early redemption of the Series 2006A Unlimited Tax Bonds

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended August 31, 2019, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets being depreciated/amortized			
Impact fees	\$ 2,679,541	\$ -	\$ 2,679,541
Parks and recreational facilities	1,058,720		1,058,720
	<u>3,738,261</u>		<u>3,738,261</u>
Less accumulated depreciation/amortization			
Impact fees	(602,506)	(99,541)	(702,047)
Parks and recreational facilities	(326,026)	(70,581)	(396,607)
	<u>(928,532)</u>	<u>(170,122)</u>	<u>(1,098,654)</u>
Capital assets, net	<u>\$ 2,809,729</u>	<u>\$ (170,122)</u>	<u>\$ 2,639,607</u>

Depreciation/amortization expense for the current year was \$170,122.

Note 6 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 21,905,000
Unamortized discounts	(240,231)
	<u>\$ 21,664,769</u>
Due within one year	<u>\$ 1,405,000</u>

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 6 – Long-Term Debt (continued)

The District’s bonds payable at August 31, 2019, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009A Park	\$ 870,000	\$ 1,190,000	6.00%	September 1, 2012/2032	March 1, September 1	September 1, 2019
2012 Refunding	1,440,000	2,375,000	2.00% to 3.75%	September 1, 2012/2028	March 1, September 1	September 1, 2020
2013 Refunding	4,700,000	6,830,000	2.00% to 3.375%	September 1, 2013/2030	March 1, September 1	September 1, 2020
2013A	2,310,000	3,045,000	3.00% to 5.00%	September 1, 2014/2032	March 1, September 1	September 1, 2021
2014 Refunding	2,945,000	3,770,000	2.00% to 3.25%	September 1, 2015/2032	March 1, September 1	September 1, 2022
2014A	3,570,000	4,390,000	2.00% to 3.50%	September 1, 2015/2032	March 1, September 1	September 1, 2022
2015 Park	1,100,000	1,450,000	2.00% to 3.25%	September 1, 2016/2032	March 1, September 1	September 1, 2022
2019 Refunding	4,970,000	4,970,000	2.00% to 3.00%	September 1, 2020/2032	March 1, September 1	September 1, 2025
	<u>\$ 21,905,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At August 31, 2019, the District had authorized but unissued bonds in the amount of \$4,970,000 for water, sewer, and drainage facilities; \$2,165,000 for park and recreational facilities; and \$21,004,379 for refunding purposes.

On October 1, 2018, the District used \$301,163 in available funds to redeem \$300,000 of its outstanding Series 2006A Unlimited Tax Bonds prior to the stated maturity of September 1, 2032. This early redemption will save the District \$177,338 in future debt service payments.

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 6 – Long-Term Debt (continued)

On July 11, 2019, the District issued its \$4,970,000 Series 2019 Unlimited Tax Refunding Bonds at a net effective interest rate of 2.841003% to refund \$4,810,000 of outstanding Series 2006A, 2009 and 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by approximately \$961,904 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$778,142. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments through July 16, 2019, the redemption date of the 2006A bonds and September 1, 2019, the redemption date of the Series 2009 and 2011 bonds. As of August 31, 2019, the Series 2006A bonds have all been redeemed and are no longer outstanding. The outstanding principal of the Series 2009 and 2011 defeased bonds is \$3,530,000.

The change in the District’s long-term debt during the year is as follows:

Bonds payable, beginning of year	\$ 23,380,000
Bonds issued	4,970,000
Bonds retired	(1,335,000)
Bonds redeemed	(300,000)
Bonds refunded	(4,810,000)
Bonds payable, end of year	<u>\$ 21,905,000</u>

The debt service payment due on September 1 was made during the current fiscal year. The following schedule of annual debt service requirements as of August 31, 2019 was prepared presuming this practice will continue:

Year	Principal	Interest	Totals
2020	\$ 1,405,000	\$ 747,234	\$ 2,152,234
2021	1,445,000	684,952	2,129,952
2022	1,485,000	644,913	2,129,913
2023	1,530,000	598,539	2,128,539
2024	1,585,000	548,341	2,133,341
2025	1,640,000	495,557	2,135,557
2026	1,690,000	441,594	2,131,594
2027	1,750,000	386,244	2,136,244
2028	1,805,000	330,013	2,135,013
2029	1,870,000	270,638	2,140,638
2030	1,935,000	205,924	2,140,924
2031	2,000,000	136,200	2,136,200
2032	1,765,000	64,892	1,829,892
	<u>\$ 21,905,000</u>	<u>\$ 5,555,041</u>	<u>\$ 27,460,041</u>

Galveston County Municipal Utility District No. 39
Notes to Basic Financial Statements
August 31, 2019

Note 7 – Property Taxes

On November 6, 2001, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Galveston Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2019 fiscal year was financed through the 2018 tax levy, pursuant to which the District levied property taxes of \$0.61 per \$100 of assessed value, of which \$0.04 was allocated to maintenance and operations and \$0.57 was allocated to debt service. The resulting tax levy was \$2,364,328 on the adjusted taxable value of \$387,594,794.

Property taxes receivable, at August 31, 2019, consisted of the following:

Current year taxes receivable	\$ 10,046
Prior years taxes receivable	17,289
	<hr/>
	27,335
Penalty and interest receivable	12,476
	<hr/>
Property taxes receivable	<u>\$ 39,811</u>

Note 8 – Utility Agreement with the City of League City

In November 2001, the District entered into a utility agreement with the City of League City (the “City”) for construction and extension of water distribution lines, sanitary sewer collection systems, and drainage facilities to serve the District. As the system is acquired or constructed, the District shall transfer the system to the City but will reserve a security interest in the system and provide service to all users in the District. The term of the agreement is 40 years. Water and sewer rates charged by the City to users in the District shall be the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

Note 9 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

*Galveston County Municipal Utility District No. 39
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended August 31, 2019*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 148,000	\$ 154,506	\$ 6,506
Investment earnings	2,500	3,982	1,482
Total Revenues	<u>150,500</u>	<u>158,488</u>	<u>7,988</u>
Expenditures			
Operating and administrative			
Professional fees	41,500	39,394	2,106
Contracted services	15,000	13,556	1,444
Administrative	12,600	9,307	3,293
Total Expenditures	<u>69,100</u>	<u>62,257</u>	<u>6,843</u>
Revenues Over Expenditures	81,400	96,231	14,831
Fund Balance			
Beginning of the year	461,256	461,256	
End of the year	<u>\$ 542,656</u>	<u>\$ 557,487</u>	<u>\$ 14,831</u>

Galveston County Municipal Utility District No. 39
Notes to Required Supplementary Information
August 31, 2019

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Galveston County Municipal Utility District No. 39
TSI-1. Services and Rates
August 31, 2019

1. Services provided by the District During the Fiscal Year:

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

2. Retail Service Providers
 (You may omit this information if your district does not provide retail services)

a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

*Galveston County Municipal Utility District No. 39
 TSI-2. General Fund Expenditures
 For the Year Ended August 31, 2019*

Professional fees		
Legal		\$ 28,644
Audit		10,750
		<u>39,394</u>
Contracted services		
Bookkeeping		<u>13,556</u>
Administrative		
Directors fees		3,300
Printing and office supplies		1,708
Insurance		3,626
Other		673
		<u>9,307</u>
Total expenditures		<u><u>\$ 62,257</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-3. Investments
August 31, 2019

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Interest Receivable</u>
General				
Certificates of deposit	2.50%	9/5/2019	<u>\$ 128,467</u>	<u>\$ 1,557</u>
Debt Service				
Certificate of deposit	2.45%	10/01/19	240,000	2,449
Certificate of deposit	2.40%	11/25/19	242,800	1,533
Certificate of deposit	2.35%	09/27/19	<u>242,829</u>	<u>2,423</u>
			<u>725,629</u>	<u>6,405</u>
Total - All Funds			<u><u>\$ 854,096</u></u>	<u><u>\$ 7,962</u></u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-4. Taxes Levied and Receivable
August 31, 2019

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 1,442	\$ 18,798	\$ 20,240	
Adjustments	(63)	(972)	(1,035)	
Adjusted Receivable	1,379	17,826	19,205	
2018 Original Tax Levy	151,146	2,153,830	2,304,976	
Adjustments	3,892	55,460	59,352	
Adjusted Tax Levy	155,038	2,209,290	2,364,328	
Total to be accounted for	156,417	2,227,116	2,383,533	
Tax collections:				
Current year	154,379	2,199,903	2,354,282	
Prior years	127	1,789	1,916	
Total Collections	154,506	2,201,692	2,356,198	
Taxes Receivable, End of Year	\$ 1,911	\$ 25,424	\$ 27,335	
Taxes Receivable, By Years				
2018	\$ 659	\$ 9,387	\$ 10,046	
2017	232	3,362	3,594	
2016	224	3,591	3,815	
2015 and prior	796	9,084	9,880	
Taxes Receivable, End of Year	\$ 1,911	\$ 25,424	\$ 27,335	
	2018	2017	2016	2015
Property Valuations:				
Land	\$ 70,072,640	\$ 70,072,640	\$ 70,036,100	\$ 69,665,650
Improvements	326,298,872	326,503,785	293,500,644	260,589,294
Personal Property	1,517,195	1,542,126	1,149,000	1,076,337
Exemptions	(10,293,913)	(11,843,295)	(9,933,618)	(22,101,832)
Total Property Valuations	\$ 387,594,794	\$ 386,275,256	\$ 354,752,126	\$ 309,229,449
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.06
Debt service tax rates	0.57	0.58	0.64	0.74
Total Tax Rates per \$100 Valuation	\$ 0.61	\$ 0.62	\$ 0.68	\$ 0.80
Adjusted Tax Levy:	\$ 2,364,328	\$ 2,394,907	\$ 2,412,314	\$ 2,473,836
Percentage of Taxes Collected to Taxes Levied **	99.58%	99.85%	99.84%	99.92%

* Maximum Maintenance Tax Rate Approved by Voters: \$ 1.50 on November 6, 2001

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

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2009A Park--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 40,000	\$ 52,200	\$ 92,200
2021	40,000	49,800	89,800
2022	40,000	47,400	87,400
2023	40,000	45,000	85,000
2024	40,000	42,600	82,600
2025	40,000	40,200	80,200
2026	40,000	37,800	77,800
2027	40,000	35,400	75,400
2028	40,000	33,000	73,000
2029	60,000	30,600	90,600
2030	150,000	27,000	177,000
2031	150,000	18,000	168,000
2032	150,000	9,000	159,000
	<u>\$ 870,000</u>	<u>\$ 468,000</u>	<u>\$ 1,338,000</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 39
 TSI-5. Long-Term Debt Service Requirements
 Series 2012 Refunding--by Years
 August 31, 2019*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 140,000	\$ 47,570	\$ 187,570
2021	140,000	44,070	184,070
2022	145,000	39,870	184,870
2023	155,000	35,520	190,520
2024	155,000	30,560	185,560
2025	165,000	25,600	190,600
2026	170,000	19,825	189,825
2027	180,000	13,875	193,875
2028	190,000	7,125	197,125
	<u>\$ 1,440,000</u>	<u>\$ 264,015</u>	<u>\$ 1,704,015</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2013 Refunding--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 370,000	\$ 148,025	\$ 518,025
2021	375,000	139,700	514,700
2022	390,000	130,325	520,325
2023	405,000	116,675	521,675
2024	430,000	102,500	532,500
2025	445,000	87,450	532,450
2026	460,000	74,100	534,100
2027	480,000	59,725	539,725
2028	500,000	44,125	544,125
2029	515,000	27,875	542,875
2030	330,000	11,138	341,138
	<u>\$ 4,700,000</u>	<u>\$ 941,638</u>	<u>\$ 5,641,638</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2013A--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 140,000	\$ 101,525	\$ 241,525
2021	145,000	96,625	241,625
2022	150,000	91,550	241,550
2023	155,000	85,550	240,550
2024	160,000	79,350	239,350
2025	170,000	72,750	242,750
2026	175,000	65,738	240,738
2027	185,000	57,862	242,862
2028	190,000	49,538	239,538
2029	200,000	40,988	240,988
2030	205,000	31,486	236,486
2031	215,000	21,750	236,750
2032	220,000	11,000	231,000
	<u>\$ 2,310,000</u>	<u>\$ 805,712</u>	<u>\$ 3,115,712</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2014 Refunding--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 305,000	\$ 91,450	\$ 396,450
2021	310,000	82,300	392,300
2022	315,000	74,938	389,938
2023	320,000	67,063	387,063
2024	325,000	57,463	382,463
2025	330,000	47,713	377,713
2026	340,000	36,988	376,988
2027	120,000	25,938	145,938
2028	120,000	21,738	141,738
2029	115,000	17,537	132,537
2030	115,000	13,224	128,224
2031	115,000	8,912	123,912
2032	115,000	4,455	119,455
	<u>\$ 2,945,000</u>	<u>\$ 549,719</u>	<u>\$ 3,494,719</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2014A--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 190,000	\$ 110,669	\$ 300,669
2021	210,000	105,919	315,919
2022	220,000	100,406	320,406
2023	230,000	94,631	324,631
2024	240,000	88,306	328,306
2025	250,000	81,106	331,106
2026	275,000	73,606	348,606
2027	285,000	65,356	350,356
2028	300,000	56,450	356,450
2029	310,000	46,700	356,700
2030	340,000	36,238	376,238
2031	350,000	24,763	374,763
2032	370,000	12,949	382,949
	<u>\$ 3,570,000</u>	<u>\$ 897,099</u>	<u>\$ 4,467,099</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2015 Park--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 85,000	\$ 31,237	\$ 116,237
2021	85,000	29,538	114,538
2022	85,000	27,624	112,624
2023	85,000	25,500	110,500
2024	90,000	23,162	113,162
2025	95,000	20,688	115,688
2026	85,000	17,837	102,837
2027	85,000	15,288	100,288
2028	85,000	12,737	97,737
2029	85,000	10,188	95,188
2030	85,000	7,638	92,638
2031	75,000	4,875	79,875
2032	75,000	2,438	77,438
	<u>\$ 1,100,000</u>	<u>\$ 228,750</u>	<u>\$ 1,328,750</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2019 Refunding--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 135,000	\$ 164,558	\$ 299,558
2021	140,000	137,000	277,000
2022	140,000	132,800	272,800
2023	140,000	128,600	268,600
2024	145,000	124,400	269,400
2025	145,000	120,050	265,050
2026	145,000	115,700	260,700
2027	375,000	112,800	487,800
2028	380,000	105,300	485,300
2029	585,000	96,750	681,750
2030	710,000	79,200	789,200
2031	1,095,000	57,900	1,152,900
2032	835,000	25,050	860,050
	<u>\$ 4,970,000</u>	<u>\$ 1,400,108</u>	<u>\$ 6,370,108</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
August 31, 2019

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 1,405,000	\$ 747,234	\$ 2,152,234
2021	1,445,000	684,952	2,129,952
2022	1,485,000	644,913	2,129,913
2023	1,530,000	598,539	2,128,539
2024	1,585,000	548,341	2,133,341
2025	1,640,000	495,557	2,135,557
2026	1,690,000	441,594	2,131,594
2027	1,750,000	386,244	2,136,244
2028	1,805,000	330,013	2,135,013
2029	1,870,000	270,638	2,140,638
2030	1,935,000	205,924	2,140,924
2031	2,000,000	136,200	2,136,200
2032	1,765,000	64,892	1,829,892
	<u>\$ 21,905,000</u>	<u>\$ 5,555,041</u>	<u>\$ 27,460,041</u>

See accompanying auditors' report.

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	Bond Issue			
	Series 2006A	Series 2009	Series 2009A Park	Series 2011
Interest rate	4.0% - 6.0%	5.5% - 6.0%	6.00%	3.75% - 6.0%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/08 - 9/1/32	9/1/12 - 9/1/32	9/1/12 - 9/1/32	9/1/13 - 9/1/32
Beginning bonds outstanding	\$ 1,580,000	\$ 2,030,000	\$ 910,000	\$ 1,595,000
Bonds issued				
Bonds redeemed	(300,000)			
Bonds refunded	(1,280,000)	(1,980,000)		(1,550,000)
Bonds retired	.	(50,000)	(40,000)	(45,000)
Ending bonds outstanding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 870,000</u>	<u>\$ -</u>
Interest paid during fiscal year	<u>\$ 48,663</u>	<u>\$ 118,800</u>	<u>\$ 54,600</u>	<u>\$ 76,512</u>
Paying agent's name and city	Bank of New York Mellon Trust Co., N.A., Houston, Texas			
Series 2009 and 2009A	Bank of New York Mellon Trust Co., N.A., Dallas, Texas			
Series 2006A, 2011, 2012, 2013R, 2013A 2014R, 2014A, 2015 Park and 2019R	Bank of New York Mellon Trust Co., N.A., Dallas, Texas			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 34,200,000	\$ 4,805,000	\$ 22,200,000	
Amount Issued	(29,230,000)	(2,640,000)	(1,195,621)	
Remaining To Be Issued	<u>\$ 4,970,000</u>	<u>\$ 2,165,000</u>	<u>\$ 21,004,379</u>	

All bonds are secured with tax revenues.

Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of August 31, 2019: \$ 1,612,633

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 2,112,311

See accompanying auditors' report.

	Bond Issue			
	Series 2012 Refunding	Series 2013 Refunding	Series 2013A	Series 2014 Refunding
Interest rate	2.0% - 3.75%	2.0% - 3.375%	3.0% - 5.0%	2.0% - 3.25%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/12 -	9/1/13 -	9/1/14 -	9/1/15 -
Maturity dates	9/1/28	9/1/30	9/1/32	9/1/32
Beginning bonds outstanding	\$ 1,570,000	\$ 5,055,000	\$ 2,445,000	\$ 3,250,000
Bonds issued				
Bonds redeemed				
Bonds refunded				
Bonds retired	<u>(130,000)</u>	<u>(355,000)</u>	<u>(135,000)</u>	<u>(305,000)</u>
Ending bonds outstanding	<u>\$ 1,440,000</u>	<u>\$ 4,700,000</u>	<u>\$ 2,310,000</u>	<u>\$ 2,945,000</u>
Interest paid during fiscal year	<u>\$ 50,820</u>	<u>\$ 155,125</u>	<u>\$ 106,250</u>	<u>\$ 97,550</u>

See accompanying auditors' report.

Bond Issue			
Series 2014A	Series 2015 Park	Series 2019 Refunding	Totals
2.0% - 3.5%	2.0% - 3.25%	2.0% - 3.0%	
3/1; 9/1	3/1; 9/1	3/1; 9/1	
9/1/15 -	9/1/16 -	9/1/20 -	
9/1/32	9/1/32	9/1/32	
\$ 3,760,000	\$ 1,185,000	\$ -	\$ 23,380,000
		4,970,000	4,970,000
			(300,000)
			(4,810,000)
(190,000)	(85,000)		(1,335,000)
<u>\$ 3,570,000</u>	<u>\$ 1,100,000</u>	<u>\$ 4,970,000</u>	<u>\$ 21,905,000</u>
<u>\$ 114,469</u>	<u>\$ 32,938</u>	<u>\$ -</u>	<u>\$ 855,727</u>

Galveston County Municipal Utility District No. 39
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	\$ 154,506	\$ 154,499	\$ 141,672	\$ 185,015	\$ 149,324
Investment earnings	3,982	2,500	1,000	470	399
Total Revenues	158,488	156,999	142,672	185,485	149,723
Expenditures					
Operating and administrative					
Professional fees	39,394	43,757	38,471	48,383	43,967
Contracted services	13,556	10,881	13,250	12,200	10,800
Repairs and maintenance				30,000	60,000
Administrative	9,307	9,891	10,273	10,893	10,856
Park contribution		55,000			
Total Expenditures	62,257	119,529	61,994	101,476	125,623
Revenues Over Expenditures	\$ 96,231	\$ 37,470	\$ 80,678	\$ 84,009	\$ 24,100

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
97%	98%	99%	100%	100%
3%	2%	1%	*	*
100%	100%	100%	100%	100%
25%	28%	27%	26%	29%
9%	7%	9%	7%	7%
			16%	40%
6%	6%	7%	6%	7%
	35%			
40%	76%	43%	55%	83%
60%	24%	57%	45%	17%

Galveston County Municipal Utility District No. 39

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

	Amounts				
	2019	2018	2017	2016	2015
Revenues					
Property taxes	\$ 2,201,692	\$ 2,240,551	\$ 2,265,748	\$ 2,285,228	\$ 2,039,996
Penalties and interest	6,118	8,297	9,123	7,352	9,105
Accrued interest on bonds sold					1,696
Investment earnings	48,331	32,502	7,541	6,154	6,248
Total Revenues	2,256,141	2,281,350	2,282,412	2,298,734	2,057,045
Expenditures					
Tax collection services	42,513	43,826	42,333	38,766	31,349
Other	12,500	10,000	10,000	5,000	
Debt service					
Principal	1,335,000	1,300,000	1,260,000	1,220,000	1,080,000
Interest and fees	861,726	916,614	946,776	984,139	1,009,738
Early extinguishment of debt	300,000				
Debt issuance costs	136,189				
Total Expenditures	2,687,928	2,270,440	2,259,109	2,247,905	2,121,087
Revenues Over (Under) Expenditures	\$ (431,787)	\$ 10,910	\$ 23,303	\$ 50,829	\$ (64,042)
Total Active Retail Water Connections	N/A	N/A	N/A	N/A	N/A
Total Active Retail Wastewater Connections	N/A	N/A	N/A	N/A	N/A

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2019	2018	2017	2016	2015
98%	99%	100%	100%	100%
*	*	*	*	*
2%	1%	*	*	*
100%	100%	100%	100%	100%
2%	2%	2%	2%	2%
1%	*	*	*	
59%	57%	55%	53%	53%
38%	40%	41%	43%	49%
13%				
6%				
119%	99%	98%	98%	104%
(19%)	1%	2%	2%	(4%)

Galveston County Municipal Utility District No. 39
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended August 31, 2019

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027

District Business Telephone Number: (713) 860-6400

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): August 8, 2018

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

(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid*	Expense Reimburse- ments	Title at Year End
Board Members				
David Parker	5/18 to 5/22	\$ 750	\$ 205	President
Jessica McMurrey	5/16 to 5/20	450	68	Vice President
Becky Murphy	5/18 to 5/22	750	135	Assistant Vice President
Courtney Boudreaux	5/16 to 5/20	450	14	Secretary
Omar Flores	8/18 to 5/20	900	23	Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	2003	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 24,800		
<i>Bond counsel</i>		49,957		
Myrtle Cruz, Inc.	2002	17,029		Bookkeeper
Bob Leared Interests, Inc.	2002	21,627		Tax Collector
Galveston Central Appraisal District	Legislation	18,950		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott LLP	2003	1,698		Delinquent Tax Attorney
Van de Wiele Engineering, Inc.	2005	720		Engineer
McGrath & Co., PLLC	2011	11,350		Auditor
Masterson Advisors, LLC	2018	50,151		Financial Advisor

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

See accompanying auditors' report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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