**OFFICIAL STATEMENT DATED NOVEMBER 30, 2021**

**NEW ISSUE - Book-Entry-Only**

**Ratings: Moody's: "Aa2"**
**S&P: "AA+"**
**See "OTHER INFORMATION -RATINGS" herein)**

**In the opinion of Bond Counsel, under existing law, interest on the Series 2021 Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.**

# GULF COAST WATER AUTHORITY
**(A political subdivision of the State of Texas)**

**$5,985,000**
# CONTRACT REVENUE BONDS
# (CITY OF LEAGUE CITY PROJECT – SOUTHEAST TRANSMISSION LINE) SERIES 2021

**Dated: December 1, 2021**

**Due August 15, as shown on inside cover.**
**CUSIP Prefix: 40223W**

The Gulf Coast Water Authority (the "Authority" or "GCWA") is issuing its Contract Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 (the "Series 2021 Bonds") to fund (i) a portion of the cost of capacity in a larger diameter water transmission line (the "Southeast Transmission Line") in order to help ensure sufficient transmission capacity to supply the future water needs of the City of League, Texas (the "City") from the City of Houston's Southeast Water Purification Plant as it may be expanded from time to time, (ii) a debt service reserve fund (the "Reserve Fund"), and (iii) the costs of issuance of the Series 2021 Bonds. See "SOURCES AND USES OF FUNDS" and "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT."

The Series 2021 Bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by (i) a first lien on and pledge of the Pledged Revenues (as defined herein), which consist of certain Fixed Charges Payments (as defined herein) to be made by the City under the Fourth Amended and Restated Water Supply Contract, dated as of November 18, 2021 between the Authority and the City, as may be amended and supplemented from time to time (the "Water Supply Contract"), which unconditionally obligates the City to pay principal and interest of the Authority's Series 2021 Bonds and any other additional bonds which may be issued on parity thereafter (collectively, the "Bonds") and (ii) the Reserve Fund required by the Bond Resolution adopted by the Board of Directors (the "Board") of the Authority on November 18, 2021 (the "Bond Resolution"). See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT" and "THE RESOLUTION." In the Bond Resolution the Board delegated pricing of the Series 2021 Bonds and certain other matters to an authorized official of the Authority who approved and executed a pricing certificate on November 30, 2021, that completed the sale of the Series 2021 Bonds. The Series 2021 Bonds, together with the interest thereon, are payable solely from such Pledged Revenues and do not constitute an indebtedness or general obligation to the Authority. **The Series 2021 Bonds are not secured by the pledge of revenues from any other Authority project or contract; further, the Authority has no taxing power, and the Series 2021 Bonds are not secured by the pledge of ad valorem taxes from any source**. See "THE SERIES 2021 BONDS - Security For The Series 2021 Bonds," "INVESTMENT CONSIDERATIONS," and "THE RESOLUTION."

Interest on the Series 2021 Bonds will accrue from the date of initial delivery of the Series 2021 Bonds to the underwriter identified below (the "Underwriter") and will be payable on February 15, 2022 and on each August 15 and February 15 thereafter until maturity or prior redemption. Principal of the Series 2021 Bonds will be paid at maturity or redemption only upon presentation and surrender of the Series 2021 Bonds at the principal corporate trust office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar") (see "THE SERIES 2021 BONDS – Paying Agent/Registrar").

The Series 2021 Bonds will be issued as fully registered securities, when issued, registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2021 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Series 2021 Bonds will be made to the owners thereof. Principal of and interest on the Series 2021 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2021 Bonds (see "THE SERIES 2021 BONDS – Book-Entry-Only-System).

The Series 2021 Bonds maturing on and after August 15, 2032 are subject to redemption prior to maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE SERIES 2021 BONDS - Redemption."

See Maturity Schedule on page ii.

The Series 2021 Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and by Bracewell LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe, LLP, Houston, Texas. The Series 2021 Bonds are expected to be available for delivery through the facilities of DTC on or about December 21, 2021.

**SAMCO**

## MATURITY SCHEDULE

**$5,985,000**
**GULF COAST WATER AUTHORITY**
**CONTRACT REVENUE BONDS**
**(CITY OF LEAGUE CITY PROJECT – SOUTHEAST TRANSMISSION LINE) SERIES 2021**

| Year (August 15)[(a)] | Principal Amount | Interest Rate | Yield[(b)] | CUSIP[(3)] (Prefix: 40223W) |
|---|---|---|---|---|
| 2022 | $155,000 | 4.000% | 0.290% | AD8 |
| 2023 | 215,000 | 4.000 | 0.430 | AE6 |
| 2024 | 225,000 | 4.000 | 0.570 | AF3 |
| 2025 | 235,000 | 4.000 | 0.730 | AG1 |
| 2026 | 245,000 | 4.000 | 0.920 | AH9 |
| 2027 | 250,000 | 4.000 | 1.080 | AJ5 |
| 2028 | 260,000 | 4.000 | 1.260 | AK2 |
| 2029 | 270,000 | 4.000 | 1.350 | AL0 |
| 2030 | 285,000 | 4.000 | 1.410 | AM8 |
| 2031 | 295,000 | 4.000 | 1.500 | AN6 |
| 2032 | 305,000 | 4.000 | 1.530[(d)] | AP1 |
| 2033 | 320,000 | 3.000 | 1.650[(d)] | AQ9 |
| 2034 | 330,000 | 3.000 | 1.720[(d)] | AR7 |
| 2035 | 340,000 | 3.000 | 1.800[(d)] | AS5 |
| 2036 | 350,000 | 3.000 | 1.870[(d)] | AT3 |
| 2037 | 360,000 | 3.000 | 1.940[(d)] | AU0 |
| 2038 | 370,000 | 3.000 | 1.970[(d)] | AV8 |
| 2039 | 380,000 | 3.000 | 2.000[(d)] | AW6 |
| 2040 | 390,000 | 3.000 | 2.030[(d)] | AX4 |
| 2041 | 405,000 | 3.000 | 2.060[(d)] | AY2 |

(a) The Series 2021 Bonds maturing on and after August 15, 2032, are subject to redemption prior to maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2031, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE SERIES 2021 BONDS - Redemption."

(b) The initial yields are established by and are the sole responsibility of the Underwriter, and may subsequently be changed.

(c) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Series 2021A Bonds. Neither the Authority, the Financial Advisor, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(d) The Initial Yield is calculated to the first optional call date

## GULF COAST WATER AUTHORITY OFFICIALS

### BOARD OF DIRECTORS

| Director | Title | Position | Date Current Term Expires |
|---|---|---|---|
| Brad Matlock, PE | President | Galveston County At-Large Pos. 2 | 9/01/2022 |
| Cliff Mock | Vice President | Brazoria County Agricultural Pos. 1 | 9/01/2022 |
| Trisha Frederick, PE | Secretary | Fort Bend County At-Large Pos. 1 | 9/01/2022 |
| Bennie Jones, Jr. | Treasurer | Brazoria County Industrial Pos. 1 | 9/01/2022 |
| Kevin D. Moore | Assistant Secretary | Galveston County Industrial Pos. 2 | 9/01/2022 |
| Jimmy Laurito | Director | Galveston County Industrial Pos. 1 | 9/01/2021 |
| Allen Bogard | Director | Fort Bend County Municipal Pos. 1 | 9/01/2023 |
| Jody Hooks | Director | Galveston County Municipal Pos. 1 | 9/01/2023 |
| Duane Cole | Director | Galveston County At-Large Pos. 1 | 9/01/2023 |
| John McDonald | Director | Brazoria County Municipal Pos. 1 | 9/01/2023 |

### ADMINISTRATIVE STAFF

Brandon Wade, PE .......... General Manager/CEO
David E. Davis, Jr. CPA .......... Assistant General Manager
Eric Wilson .......... Assistant General Manager
Jake Hollingsworth .......... Chief of Staff

### CONSULTANTS AND ADVISORS

Bond Counsel .......... Bracewell LLP
Houston, Texas
Financial Advisor .......... Post Oak Municipal Advisors LLC
Houston, Texas

For additional information regarding the Authority, please contact:

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President
Post Oak Municipal Advisors LLC
820 Gessner Road
Suite 1350
Houston, Texas 77024
Phone: (713) 328-0991

## CITY OF LEAGUE CITY ADMINISTRATION

The City of League City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized under the laws of the State, including the City's Home Rule Charter. The City is located in Galveston and Harris counties. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with the City Council comprised of the Mayor and seven Councilmembers serving four-year terms with biennial elections. By virtue of municipal elections conducted on May 9, 2010, the City's Home Rule Charter was amended to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2020 Census population for the City was 114,392, while the estimated 2021 population is 110,467. The City covers approximately 54 square miles.

**Elected Officials**

| City Council | Title | Current Length of Service | Term Expires November | Occupation |
|---|---|---|---|---|
| Pat Hallisey | Mayor | 5 Years | 2022 | Retired |
| Hank Dugie | Council Member 2/Mayor Pro Tem | 5 Years | 2022 | Real Estate, Self Employed |
| Andy Mannr | Council Position 1 | 3 Years | 2022 | IT Manager |
| Larry Millican | Council Position 2 | 4 Years | 2024 | Real Estate |
| John Bowen | Council Position 3 | 1 Year | 2024 | Retired |
| Justin Hicks | Council Position 4 | 1 Year | 2024 | Engineer |
| Chad Tressler | Council Position 5 | 3 Years | 2022 | Systems Engineer |
| Nick Long | Council Position 6 | 6 Years | 2022 | Benefits Consultant |

**Selected Administration Staff**

| Name | Position | Service to City | Total Governmental Service |
|---|---|---|---|
| John Baumgartner | City Manager | 9 Years | 33 Years |
| Ogden "Bo" Bass | Assistant City Manager | 4 Years | 40 Years |
| Michael Kramm | Assistant City Manager | 27 Years | 27 Years |
| Angie Steelman | Executive Director Finance and Project Management | 13 Years | 13 Years |
| Deborah Jordan | Interim Finance Director/Controller | 1 Year | 5 Years |
| Diana Stapp | City Secretary | 18 Years | 19 Years |
| Nghiem Doan | City Attorney | 6 Years | 22 Years |

## USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any application that there has been no change in the affairs of the Authority, the City, or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Authority's and the City's undertakings to provide certain information on a continuing basis.

NEITHER THE AUTHORITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

THE SERIES 2021 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE SERIES 2021 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

The agreements of the Authority, the City and others related to the Series 2021 Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Series 2021 Bonds is to be construed as constituting an agreement with the purchasers of the Series 2021 Bonds.

INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

This Official Statement contains "Forward-Looking" statements. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. See "OTHER INFORMATION – Forward-Looking Statements" herein.

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

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**OFFICIAL STATEMENT**

**relating to**

# GULF COAST WATER AUTHORITY
## (A political subdivision of the State of Texas)

**$5,985,000**
**CONTRACT REVENUE BONDS**
**(CITY OF LEAGUE CITY PROJECT – SOUTHEAST TRANSMISSION LINE) SERIES 2021**

## INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the Gulf Coast Water Authority (the "Authority" or "GCWA") of its Contract Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 (the "Series 2021 Bonds").

The Series 2021 Bonds are issued pursuant to the Constitution and the laws of the State of Texas, including, particularly Article 8280-339 Vernon's Texas Civil Statues, as amended, Chapter 1371, Texas Government Code, as amended, and additionally pursuant to a bond resolution adopted by the Board of Directors of the Authority (the "Board") on November 18, 2021 ("Bond Resolution"). In the Bond Resolution the Board delegated pricing of the Series 2021 Bonds and certain other matters to authorized officials of the Authority who approved and executed a pricing certificate on November 30, 2021, that completed the sale of the Series 2021 Bonds (the "Pricing Certificate," together with the Bond Resolution, the "Resolution"). Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "THE RESOLUTION."

There follows in this Official Statement descriptions of the plan of financing, the Series 2021 Bonds, and certain information about the Authority and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2021 Bonds will be applied approximately as follows:

| | |
|---|---|
| Sources of Funds | |
| Par Amount of Bonds | $5,985,000.00 |
| Reoffering Premium | 741,448.35 |
| Total | $6,726,448.35 |
| | |
| Uses of Funds | |
| Project Fund | $6,085,505.00 |
| Debt Service Reserve Fund | 418,750.00 |
| Costs of Issuance[1] | 170,834.94 |
| Underwriter's Discount | 51,358.41 |
| Total | $6,726,448.35 |

[1] Includes the fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Paying Agent/Registrar, the rating agencies, a rounding amount and other costs related to the issuance of the Bonds.

## THE SERIES 2021 BONDS

### General

The Series 2021 Bonds are dated December 1, 2021 (the "Dated Date"), are issued as fully registered bonds only in the denomination of $5,000 or any integral multiple thereof, and mature on August 15 in each of the years and in the amounts set forth on page ii hereof. The Series 2021 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Interest on the Series 2021 Bonds will accrue from the date of initial delivery of the Series 2021 Bonds to the underwriter identified on the cover page (the "Underwriter") and is payable on February 15, 2022, and on each August 15 and February 15 thereafter until maturity or prior redemption, calculated on the basis of a 360-day year of twelve 30-day months. The definitive Series 2021 Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2021 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Series 2021 Bonds will be made to the owners thereof. Principal of and interest on the Series 2021 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2021 Bonds (see "- Book-Entry-Only System"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas (see "PAYING AGENT/REGISTRAR"). The Authority has reserved the right to issue additional bonds secured on a parity with the Series 2021 Bonds payable from the Pledged Revenues in the future which together with the Series 2021 Bonds are referred to herein as the "Bonds" (see "THE RESOLUTION").

### Purpose

The Series 2021 Bonds are being issued to fund (i) a portion of the cost of capacity in a larger diameter water transmission line (the "Southeast Transmission Line") in order to help ensure sufficient transmission capacity to supply the City's future water needs from the City of Houston's Southeast Water Purification Plant (the "Plant") as it may be expanded from time to time, (ii) a debt service reserve fund (the "Reserve Fund"), and (iii) the costs of issuance of the Series 2021 Bonds. See "SELECTED PROVISIONS OF WATER SUPPLY CONTRACT – Planning, Construction and Cost Sharing" for a description of the obligations of the Authority and the City in connection with the Southeast Transmission Line under the SETL Cost Sharing Agreement (as defined herein). The Series 2021 Bonds are being used to fund the third cash call for the Southeast Transmission Line Project. The total cost of the City's share of the Southeast Transmission Line Project is currently projected to be approximately $66.5 million, with remaining cash calls to be funded through cash payments from the City or the issuance of additional Bonds.

### Security for the Series 2021 Bonds

The Series 2021 Bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by a first lien on and pledge of the Pledged Revenues (as defined in the Resolution), which consist primary of certain Fixed Charges Payments (as defined in the Water Supply Contract) to be made by the City under the Fourth Amended and Restated Water Supply Contract, dated as of November 18, 2021 between the Authority and the City, as may be amended and supplemented from time to time (the "Water Supply Contract"). The Water Supply Contract unconditionally obligates the City to pay principal and interest of the Series 2021 Bonds and any other additional bonds which may be issued on a parity thereafter, banking fees and other charges associated with the payment of principal and interest on the Bonds as well as other costs more specifically described under "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT – Payments by the City to the Authority." See "THE RESOLUTION" for additional information regarding the security and sources of payment for the Series 2021 Bonds.

**The Series 2021 Bonds, together with the interest thereon are payable solely from the Pledged Revenue and do not constitute an indebtedness or general obligation of the Authority. The Series 2021 Bonds are not a charge against any other funds of the Authority and no bondholder shall have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation. The Authority has no taxing power, and the Series 2021 Bonds are not secured by the pledge of ad valorem taxes from any source.**

All payments required to be made by the City to the Authority under the Water Supply Contract are payable from the revenues and income received by the City from the ownership and operation of its water and sewer system. The Authority shall never have the right to demand payment by the City of any obligations assumed by or imposed upon it under or by virtue of the Water Supply Contract from any funds raised or to be raised by taxation, and the City's obligations under the Water Supply Contract shall never be construed to be a debt of the City of such kind as to require it under the Constitution and laws of the State to levy and collect a tax to discharge such obligation. Nothing in the Water Supply Contract, prevents the City, in its sole discretion, from making any such payment from sources other than revenues and income of the City's water and sewer system. Pursuant to the provisions of Section 791.026, Texas Government Code, the payments made under the Water Supply Contract are an operating expense of the City's water system and sewer system. See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT – Payments by the City to the Authority – Source of Payments."

In the Water Supply Contract, the City covenants and agrees to fix and maintain such rates and collect such charges for the facilities and services provided by its water and sewer system as will be adequate to permit the City to make prompt payment of all expenses of operating and maintaining the City's water and sewer system, including all payments under the Water Supply Contract, and to make prompt payment of the interest on and principal of the Bonds or other obligations of the City payable, in whole or in part, from the revenues of its water and sewer system. In the Water Supply Contract, the City pledges such revenues to payment of the amounts due under the Water Supply Contract to the Authority. See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT – Payments by the City to the Authority – Source of Payments."

In the Resolution, the Authority established the Reserve Fund that may be used by the Authority to prevent a default in the payment of principal of, premium, if any, and interest on and paying agent/registrar fees on the Series 2021 Bonds if there is insufficient money for such purposes in the interest and sinking fund established for such Series 2021 Bonds. The Series 2021 Bonds will be designated as Reserve Fund Participants (as defined herein) in the Reserve Fund Participant Account (as defined herein) of the Debt Service Reserve Fund. (See "THE RESOLUTION – Selected Definitions" and "- Reserve Fund"). For the Series 2021 Bonds and any Parity Bonds (as defined herein) that are designated as Reserve Fund Participants, the Reserve Fund Requirement shall, as of any date of calculation (taking into account the issuance of the new Parity Bonds and the refunding of any refunded Parity Bonds), be an amount equal to the lesser of (i) ten percent of the stated principal amount (or Issue Price of the Reserve Fund Participants in the event that the amount of Original Issue Discount exceeds two percent multiplied by the Stated Redemption Price at Maturity of the Reserve Fund Participants) of the outstanding Reserve Fund Participants, (ii) the maximum annual principal and interest requirements of the outstanding Reserve Fund Participants, and (iii) 125 percent of average annual principal and interest requirements of the outstanding Reserve Fund Participants.

**Redemption**

*Optional Redemption*

The Series 2021 Bonds maturing on and after August 15, 2032, are subject to redemption prior to maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

If less than all of the Series 2021 Bonds are to be redeemed, the Authority shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Series 2021 Bonds or portions thereof within a maturity, to be redeemed.

*Notice of Redemption*

Not less than 30 days prior to a redemption date for the Series 2021 Bonds, the Paying Agent/Registrar, at the direction of the Authority, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

The Authority reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the Authority retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the Authority delivers a certificate of the Authority to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where such redemption has been rescinded shall remain outstanding.

The Paying Agent/Registrar and the Authority, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the Authority or the Paying Agent/Registrar. Neither the Authority nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see "-Book-Entry-Only System").

**Book-Entry-Only System**

*This section describes how ownership of the Series 2021 Bonds is to be transferred and how the principal of and interest on the Series 2021 Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC") while the Series 2021 Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*Neither the Authority or the Underwriter can and do give any assurance that (i) DTC will distribute payments of debt service on the Series 2021 Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2021 Bonds), or redemption or other notices, to the Beneficial Owners (as defined herein), or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Series 2021 Bonds. The Series 2021 Bonds have been issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate has been issued for each stated maturity of the Series 2021 Bonds in the aggregate principal amount of each such maturity and has been deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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" and, together with the Direct Participants, the "DTC Participants"). The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2021 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 transactions, 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 Series 2021 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 the Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued.

To facilitate subsequent transfers, all Series 2021 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC' s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2021 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 Series 2021 Bonds may wish to ascertain that the nominee holding the Series 2021 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 Paying Agent/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 Series 2021 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Series 2021 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 Authority or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2021 Bonds at any time by giving reasonable notice to the Authority and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, physical Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Series 2021 Bonds will be printed and delivered.

*Use of Certain Terms in Other Sections of this Official Statement*. In reading this Official Statement it should be understood that while the Series 2021 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC Participant acquires an interest in the Series 2021 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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

*Effect of Termination of Book-Entry-Only System*. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the Authority, printed Series 2021 Bonds will be issued to the holders and the Series 2021 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "Transfer, Exchange and Registration" below.

**Paying Agent/Registrar**

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas. In the Resolution, the Authority retains the right to replace the Paying Agent/Registrar. The Authority has covenanted to maintain and provide a Paying Agent/Registrar at all times until the Series 2021 Bonds are duly paid and no longer outstanding and any successor Paying Agent/Registrar shall be a commercial bank or trust company under the laws of the state of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Series 2021 Bonds. Upon any change in the Paying Agent/Registrar for the Series 2021 Bonds, the Authority has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Series 2021 Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**Transfer, Exchange and Registration**

In the event the Book-Entry-Only System should be discontinued, the Series 2021 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. The Series 2021 Bonds may be assigned by the execution of an assignment form on the respective Series 2021 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2021 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2021 Bonds being transferred or exchanged, at the corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Series 2021 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Series 2021 Bonds surrendered for exchange or transfer. See "-Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2021 Bonds. Neither the Authority nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2021 Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Series 2021 Bond.

**Record Date For Interest Payment**

The record date ("Record Date") for the interest payable on the Series 2021 Bonds on any interest payment date means the close of business on the last business day of the preceding calendar month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Authority. Notice of the Special Record Date and of the scheduled payment date of the past due interest (a "Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Series 2021 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the Special Record Date.

**Additional Bonds**

The Authority has reserved the right in the Resolution to issue additional bonds payable from the same source as the Bonds and on a parity therewith under the terms set forth in the Resolution and the Agreement. Such additional bonds, refunding bonds and the Series 2021 Bonds are collectively referred to herein as the "Bonds." (See "THE RESOLUTION") The Authority has also reserved the right to issue bonds, credit agreements or other obligations payable in whole or in part from the Pledged Revenues or secured by a pledge of the Pledged Revenues that is junior and subordinate to the pledge of the Pledged Revenues securing the Bonds.

## DESCRIPTION OF THE AUTHORITY

Gulf Coast Water Authority is a conservation and reclamation district of the State of Texas created pursuant to Article XVI, Section 59 of the Texas Constitution, by a special act of the 59th Texas Legislature, 1965, compiled as Article 8280-339, Vernon's Texas Civil Statutes, as amended (the "Act"). Management and control of the Authority is vested in a board of ten directors (the "Board of Directors") who are appointed as follows: five directors are appointed by the Galveston County Commissioners Court, one of whom represents municipal interests, two of whom represent industrial interests, and two of whom represent the county at-large; two directors are appointed by the Fort Bend County Commissioners Court, one of whom represents municipal interests, and one of whom represents the county at-large; and three directors are appointed by the Brazoria County Commissioners Court, one of whom represents agricultural interests, one of whom represents municipal interests, and one of whom represents industrial interests. A director appointed to represent municipal or industrial interests must be a customer of or represent an entity that is a customer of the district.

The Authority has no power to levy taxes but is authorized to issue its revenue bonds to provide funds for any and all of the purposes set forth in the Act.

The Authority was created by the Texas Legislature to provide an adequate water supply for municipal, industrial, agricultural and other useful purposes for the inhabitants and water users of the Galveston, Brazoria and Fort Bend counties. Specifically, Section 3 of the Act authorizes the Authority to conserve, store, transport, treat and purify, distribute, sell and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purpose. The Authority is expressly authorized to acquire water supplies from sources both within and without the Authority, to sell, transport and deliver water to customers situated within or without the Authority, to acquire all properties and facilities necessary and useful for such purposes, and to enter into contracts for such purposes on such terms as its Board of Directors may deem desirable, for any periods of time not exceeding forty years. The Authority is also authorized to serve existing and potential customers in Brazoria County and Fort Bend County, Texas.

The Authority presently owns and operates seven pumping plants, thirty-five miles of pipelines, two hundred and ninety-six miles of canals, and a fifty-seven million gallon per day potable water treatment plant. Currently, the Authority's facilities are generally within four primary systems, a canal system, a currently separate Juliff/Chocolate Bayou canal system, a municipal system providing potable water to a number of municipalities and special districts, and an industrial system. Each system was financed separately and is treated as a separate fund within the Authority. The designated revenues derived from operation of each system are pledged only to the payment of bonds issued to acquire or extend that particular system. In addition, the Authority issues special project bonds for and constructs facilities to serve individual customers, such as the City, that are secured by payments under standalone contracts. The Series 2021 Bonds are secured by the Fixed Charges Payments under the Water Supply Contract. They are not secured by any other funds or revenues of the Authority. See "THE SERIES 2021 BONDS – Security for the Series 2021 Bonds." See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT" for additional information on the Water Supply Contract and the City's payment obligations. The Water Supply Contract provides for the acquisition and delivery of water from the City of Houston and the Plant, which water is from the Trinity River.

Outside of certain special projects, such as the project being financed with the Series 2021 Bonds, the Authority's operations may generally be divided into three separate water delivery and revenue sources as described below.

*Canal Systems* - The Authority operates two main canal systems. The first is generally composed of canals A, B and G canals and the second is composed of the Juliff/Chocolate Bayou Canal system. These canal systems include approximately 296 miles of main-line canals and laterals, and about 380,000 ac-ft. of water rights on the lower basin of the Brazos River. These arteries allow river water to be delivered to 1) approximately 17,000 acres of commercial and hybrid seed rice in Brazoria and Galveston Counties as well as a Rice Research Facility located outside of Alvin, Texas, a provider of world-wide technology for the rice industry, 2) industrial customers, including INEOS Olefins and Polymers, and Ascend Performance Materials, 3) municipal customers, including the cities of Sugar Land, Pearland and Missouri City, as well as Ft. Bend WCID #2 and Pecan Grove MUD, and 4) to the Industrial and Municipal divisions in Galveston County described below.

*Industrial Division* - The Industrial Division operates an 8,700 acre-feet off-channel reservoir, a canal system, and a pump station contracted to deliver 67 million gallons per day (MGD), with a firm capacity of 90 million gallons per day (MGD) of surface water per day to industries located in Texas City. Industrial customers served include DOW/Union Carbide Corp., Blanchard Refining Company LLC, Marathon Petroleum Company LP, Valero Refining – Texas, L.P., Eastman Chemical Texas City, Inc., and ISP Technologies, Inc. The Industrial Division receives its water from the Canal System. The Municipal Division (described below) is a customer of the Industrial Division.

*Municipal Division* – The Authority owns and operates the Thomas S. Mackey Water Treatment Plant located in Texas City. The 57 million gallon per day (MGD) conventional surface water plant serves 13 water utilities in Galveston County. The plant was originally constructed by the City of Texas City in 1978 and acquired by the Authority in 1983. The plant's most recent expansion occurred in 2000. Those customers include the cities of Texas City, La Marque, Galveston, Hitchcock, League City, Galveston County Water Control and Improvement District #1, Galveston County Water Control and Improvement District #8, Galveston County Water Control and Improvement District #12, Galveston County Fresh Water Supply District #6, Galveston County MUD 12, Bacliff MUD, Bayview MUD and San Leon MUD. The municipal division receives water through the Canal System and the Industrial Division.

The Authority currently employs a general manager, three assistant general managers, a canal systems manager, a plant superintendent and approximately 96 other full time employees.

## INVESTMENT CONSIDERATIONS

### Series 2021 Bonds Not Payable from Taxes

The Series 2021 Bonds are special obligations of the Authority and not the State of Texas, or any political subdivision other than the Authority. See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT." The Series 2021 Bonds, together with the interest thereon, are payable solely from the Pledged Revenues and do not constitute an indebtedness or general obligation of the Authority. The Series 2021 Bonds are not a charge against any other funds of the Authority and no bondholder shall have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation. The Authority has no taxing power, and the Series 2021 Bonds are not secured by the pledge of ad valorem taxes from any source.

### Infectious Disease Outlook (COVID-19)

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor declared a state of disaster for all counties in the State in response to the Pandemic. 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 (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities.

Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

With the decrease in the number of active COVID-19 cases and the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The Authority cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. The debt service on the Series 2021 Bonds is paid from contract payments received from the City. The City plans to make such payments from the revenues of its water and sewer system. See "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT" and "APPENDIX A – General Information Regarding the City."

### Severe Weather

The greater Houston/Galveston area, including the area within the Authority and the City, is subject to occasional severe weather events, including tropical storms and hurricanes. If the Authority or the City were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to the land and water users within the Authority as a result of such a weather event, the Authority's ability to collect contract payments from the City under the Water Supply Contract and pay the Bonds could be adversely affected.

The greater Houston area has experienced multiple 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.

In Hurricane Harvey, the Authority sustained damage to the Shannon Pumping Plant intake structure, Briscoe Pumping Plant riverbank, May Pumping Plant riverbank, Mustang Reservoir levees, and canal levees at various locations within the Authority's canal system. The resulting damage from Hurricane Harvey did not impact the ability of the Authority to provide services to its customers. The Authority made claims with FEMA, and FEMA has obligated funds exceeding $34 million for repairs.

**Exposure to Oil and Gas Industry**

Declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been affected by adverse conditions in the oil and gas industry. Adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact demand for residential and commercial property in the Houston area and could reduce or negatively impact the demand for water.

**Changes in Tax Legislation**

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

## SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT

Selected provisions of the Fourth Amended and Restated Water Supply Contract, dated as of November 18, 2021, between the Authority and the City, (the "Water Supply Contract"), are reproduced below. Within the selected provisions the Water Supply Contract is referred to as the "Agreement". The provisions reproduced below are not a complete recital of all of the terms of the Water Supply Contract, and reference is made to the Water Supply Contract in its entirety, copies of which are available upon request to the Authority's Financial Advisor. Following their issuance, the Series 2021 Bonds will be the only series of Bonds outstanding that are secured by payments from the City under the Water Supply Contract. The Series 2011 Bonds described in the Water Supply Contract are no longer outstanding.

Section 1.01 Selected Definitions. Unless otherwise expressly provided or unless the context otherwise requires, the terms defined in this section shall have the respective meanings specified for all purposes of the Water Supply Contract and any amendments thereof or supplements thereto:

"1971 Project" means the system of pipelines and related facilities, built in three phases, to deliver water to the City and to the City of Galveston.

"1987 Project" means the acquisition by the Authority for the benefit of the City of Galveston and the City of 21.00 MGD production capacity, and 24.40 MGD pumping capacity, in the Plant.

"2001 Plant Cost Sharing Agreement" means that certain Cost Sharing Agreement Southeast Water Purification Plant (Restated and Amended), effective June 22, 2001, approved by Houston City Council by Ordinance No. 2001-417 and referred to as Contract No. 52797, between Houston and the Plant Cost Sharing Participants.

"2001 Project" means the acquisition by the Authority for the benefit of the City of an additional 5.5000 MGD production capacity, 5.0860 MGD pumping capacity and 2.2325 MGD distribution capacity in the Plant financed with the proceeds of the Series 2001 Bonds and subsequently refinanced with the Series 2011 Bonds, as more fully described as the "Modification Project" in the 2001 Plant Cost Sharing Agreement,

"2007 Amendment" means the Amendment to Cost Sharing Agreement Southeast Water Purification Plant (Restated and Amended) effective September 27, 2007, approved by Houston City Council by Ordinance No. 2007-927 and referred to as Contract No. 52797, among Houston, the Authority, the Clear Lake City Water Authority, the City of Nassau Bay, the Clear Brook City Municipal Utility District, the La Porte Area Water Authority, Harris County Municipal Utility District No. 55, the City of Pasadena, the City of South Houston, the City of Webster, the City of Friendswood, and Baybrook Municipal Utility District No. 1.

"200 MGD Project" shall have the meaning given to it in the 2007 Amendment.

"2007 League City Project" means the acquisition by the Authority for the benefit of the City of an additional 5.00 MOD Demand Allocation of the 200.00 MGD production capacity or an additional 2.50% Demand Allocation factor, an additional 5.00 MGD pumping allocation of the 255.00 MGD pumping capacity or an additional 1.9608% pumping allocation factor in the Plant, an additional 5.00 MGD Distribution Allocation of the 250.00 MGD Distribution Allocation capacity or an additional 2.00% Distribution Allocation factor in the 96-inch pipeline from points B to C, a 5.00 MGD Distribution Allocation of the 250.00 MGD distribution capacity or a 2.00% distribution allocation factor in the 96-inch pipeline from points C to D, a 5.00 MGD distribution of the 32.00 MGD distribution capacity or a 15.625% distribution allocation factor in the existing Beamer pipeline and a 5.00 MGD Distribution Allocation of the 32.00 MGD distribution capacity or a 15.625% Distribution Allocation factor in the new Beamer pipeline as more fully described as the "200 MGD Project" in the 2007 Amendment.

"Account" shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

"Additional Funds" shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

"Agreement" means this Fourth Amended and Restated Water Supply Contract, as may be amended or supplemented from time to time.

"Authority" shall mean Gulf Coast Water Authority and its successors and assigns.

"Authority Administrative Expenses Charges" shall have the meaning ascribed in Section 5.02(b)(6) of the Water Supply Agreement. See "- Payments by the City to the Authority."

"Authority Administrative Expenses Charges Payments" shall have the meaning ascribed in Section 5.03(b)(5).

"Bonds" shall mean the Series 2011 Bonds, the bonds initially issued to finance the Project and any additional bonds or refunding bonds issued for a Project and secured by payments under this Agreement and the related Bond Resolutions.

"Bond Resolutions" means collectively the bond resolutions adopted by the Authority in connection with the issuance of Bonds secured by payments under this Agreement, and any subsequent bond resolution adopted in connection with bonds issued to refund or refinance any of such bonds.

"Capacity Reservation Contract" means that certain Untreated Water Reservation Contract Between Houston and the Authority, effective as of March 10, 2020, as may be amended or supplemented from time to time. The version of the Capacity Reservation Contract in effect as of the date of this Agreement is attached hereto as Exhibit C. The terms and provisions of the Capacity Reservation Contract are hereby incorporated into this Agreement by reference.

"Cash Call" shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

"Cash Call Due Date" shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

"Cash Call Schedule" shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

"City" means the City of League City. Texas.

"City Capacity Reservation Contract Charges" shall have the meaning ascribed thereto in Section 5.02(b)(7) of this Agreement. See "- Payments by the City to the Authority."

“City Capacity Reservation Contract Charges Payments” shall have the meaning ascribed thereto in Section 5.03(b)(6) of this Agreement. See “- Payments by the City to the Authority.”

“City Plant Cost Sharing Agreement Charges” shall have the meaning ascribed in Section 5.02(b)(3) of this Agreement. See “- Payments by the City to the Authority.”

“City Plant Cost Sharing Agreement Charges Payments” shall have the meaning ascribed in Section 5.03(b)(2) of this Agreement. See “- Payments by the City to the Authority.”

“City SETL Cost Sharing Agreement Charges” shall have the meaning ascribed in Section 5.02(b)(4) of this Agreement. See “- Payments by the City to the Authority.”

“City SETL Cost Sharing Agreement Charges Payments- shall have the meaning ascribed in Section 5.03(b)(2) of this Agreement. See “- Payments by the City to the Authority.”

“City SETL Operating Charges” shall have the meaning ascribed in Section 5.02(b)(5) of this Agreement. See “- Payments by the City to the Authority.”

“City SETL Operating Charges Payments” shall have the meaning ascribed in Section 5.03(b)(4) of this Agreement. See “- Payments by the City to the Authority.”

“Code” shall mean the Internal Revenue Code of 1986. as amended, and. with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Contract Quantity” shall have the meaning ascribed thereto in Capacity Reservation Contract.

“Cost Share” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Deeded Property” means the property deeded by the Authority to the City under the Special Warranty Deed attached hereto as Exhibit D. “Deeded Property” shall include the property referred to as Authority Property within the Special Warranty Deed. which the Authority plans to transfer to the City by separate instrument.

“Fixed Charges” shall have the meaning ascribed in Section 5.02(a) of this Agreement. See “- Payments by the City to the Authority.”

“Fixed Charges Payments” shall have the meaning ascribed in Section 5.03(a) of this Agreement. See “- Payments by the City to the Authority.”

“Force Majeure” shall have the meaning ascribed thereto in Section 6.04 of this Agreement. See “-Defaults and Remedies.”

“Houston” means the City of Houston, Texas.

“Mackey Plant” means the Authority’s Thomas S. Mackey Water Treatment Plant located in Texas City, Texas.

“Managing Participant” means Houston as the operator and co-owner of the Plant.

“MGD” means million gallons of water per day.

“Modification Project” shall have the meaning given to it in the Plant Cost Sharing Agreement.

“Non-Project Items” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Notice of Upcoming Cash Call” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Operating Charges” are described in Section 5.02(b) of this Agreement. See “- Payments by the City to the Authority.”

“Phase 1” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Plant” means the Southeast Water Purification Plant located south of Genoa Red Bluff Road north of Ellington Field, Harris County, Texas and all associated facilities, which facilities are further defined in the Plant Cost Sharing Agreement.

“Plant Cost Sharing Agreement” means the 2001 Plant Cost Sharing Agreement, as amended by the 2007 Amendment, and as amended or supplemented from time to time in the future. The terms and provisions of the Plant Cost Sharing Agreement are hereby incorporated into this Agreement by reference. The Plant Cost Sharing Agreement as currently amended, is included herein as Exhibit A of this Agreement.

“Plant Cost Sharing Participants” shall mean the Authority, the Clear Lake City Water Authority, the City of Nassau Bay, the Clear Brook City Municipal Utility District, the La Porte Area Water Authority, Harris County Municipal Utility District No. 55, the City of Pasadena, the City of South Houston, the City of Webster, the City of Friendswood and Baybrook Municipal Utility District No. 1 and such additional entities who may be added as “Participants” under the Plant Cost Sharing Agreement from time to time.

“Plant Expansion” shall have the meaning ascribed thereto in the Capacity Reservation Contract.

“Point(s) of Delivery” means the point(s) at which treated surface water is supplied to the City after the flow meter at the location(s) of the flow control devices. The City’s Point(s) of Delivery are shown in the Exhibit(s) to the SETL Cost Sharing Agreement.

“Project Director” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Project Schedule” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Projects” means the 1971 Project, 1987 Project, 2001 Project, the 2007 League City Project, the SETL Project and any future project added as a project under this Agreement or financed with a series of Bonds.

“Regulations” shall mean the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Reservation Fee” shall have the meaning ascribed thereto in the Capacity Reservation Contract.

“Reserved Capacity” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Second Amended and Restated Water Supply Contract” means the Second Amended and Restated Water Supply Contract, dated as of September 15, 2001, between the Authority and the City as amended by the First Amendment to Second Amendment and Restated Water Supply Contract, dated as of June 29, 2007, and as supplemented by the First Supplement to Second Amended and Restated Water Supply Contract, dated as of June 29, 2007, and as supplemented by the Second Supplement to Second Amended and Restated Water Supply Agreement. dated as of September 7, 2015.

“Series 2001 Bonds” means the Authority’s Water System Contract Revenue Bonds (City of League City Contract) Series 2001, issued by the Authority to finance the 2001 Project.

“Series 2011 Bonds” means the Authority’s Water System Contract Revenue Bonds (City of League City Contract), Series 2011F, which were issued to refund the Series 2001 Bonds.

“SETL Budget” shall have the meaning ascribed to the term “Budget” in the SETL Cost Sharing Agreement.

“SETL Cost Sharing Agreement” means the Amended and Restated Cost Sharing Agreement for the Southeast Transmission Line Project with Houston and certain other parties, effective as of January 15, 2020, approved by Houston City Council by Ordinance No. 2021-21 and referred to as Contract No. 52063, a copy of which is attached hereto as Exhibit B, as may be amended or supplemented from time to time. The terms and provisions of the SETL Cost Sharing Agreement are hereby incorporated into this Agreement by reference.

“SETL Participant(s)” shall mean, individually or collectively, Baybrook Municipal Utility District No. 1, the City of Friendswood, Texas, the City of Houston, Texas, the City of Pasadena, Texas, the City of Webster, Texas, Clear Lake City Water Authority, Gulf Coast Water Authority, and Harris County Municipal Utility District No. 55, and such additional entities who may be added as “Participants” under the SETL Cost Sharing Agreement from time to time.

“SETL Project” means the design, construction, equipment, acquisition, operation and maintenance of the Southeast Transmission Line.

“SETL Project Costs” shall have the meaning ascribed to the term “Project Costs” in the SETL Cost Sharing Agreement.

“Southeast Transmission Line” means a new larger-diameter water transmission line extending from the Plant to the parties’ water transmission and distribution systems as further described in Section 1.2 of the SETL Cost Sharing Agreement.

“Special Warranty Deed” means that Special Warranty Deed and Bill of Sale whereby the Authority conveyed to the City a portion of the I971 Project, a copy of which is attached as Exhibit D to the Agreement.

“Special Project Bonds” shall have the meaning ascribed thereto in Section 4.04 of this Agreement. See “-Issuance of Bonds.”

“Special Project Customers” shall have the meaning ascribed thereto in Section 4.04 of this Agreement. See “-Issuance of Bonds.”

“Special Project Facilities” shall have the meaning ascribed thereto in Section 4.04 of this Agreement. See “-Issuance of Bonds.”

“State” means the State of Texas.

“Third Amended and Restated Water Supply Contract” means the Third Amended and Restated Water Supply Contract, dated as October 8, 2019, between the Authority and the City.

“True-up” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Unforeseen Condition” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

“Water Capacity Purchase and Sale Agreements” means those certain Water Capacity Purchase and Sale Agreements, between the Authority, Galveston and certain political subdivisions including the City, relating to the sale of Galveston’s capacity in the Plant to the City and such other parties.

“Work Progress Report” shall have the meaning ascribed thereto in the SETL Cost Sharing Agreement.

The following is a summary of certain sections of the Water Supply Contract.

Selected Provisions.

**Article II - Planning, Construction and Cost Sharing**

Section 2.01 Completion of the 1971 Project, 1987 Project, 2001 Project and 2007 League City Project. All phases of the 1971 Project, the 1987 Project, the 2001 Project and the 2007 League City Project have been completed in accordance with the contracts authorizing the same and are now serving the Authority and the City. The Authority has previously conveyed or will convey all of Phase I of the 1971 Project to the City, and the City is responsible for the operation and maintenance thereof.

Section 2.02 The SETL Project. The Authority will cooperate with Houston, which is responsible for causing the design, construction, acquisition and equipment of the SETL Project pursuant to the terms of the SETL Cost Sharing Agreement. As further described in Section 2.03 and Article V of this Agreement, the City shall timely provide from time-to-time (or the Authority shall provide from the sale of Bonds from time-to-time), and the Authority shall disburse, monies to Houston as required by the terms of the SETL Cost Sharing Agreement to pay when due the costs of the SETL Project allocated to the Authority including, without limitation, (i) the Cost Share allocated to the Authority, including True-up payments: and (ii) Additional Funds for Unforeseen Conditions.

Section 2.03 SETL Cost Sharing Agreement. The following provisions are included in this Agreement in order to establish the process for the provision of funds by or on behalf of the City to the Authority for making the payments required under the SETL Cost Sharing Agreement:

(a) Cost Share. The City acknowledges that the SETL Cost Sharing Agreement requires the payment of the Cost Share in accordance with a series of Cash Calls, and that in order to receive the Reserved Capacity being acquired by the Authority for the benefit of the City, the Authority must deposit its Cost Share into the Account not later than the applicable Cash Call Due Date. If the amount required in a Cash Call is deposited in the Account after the Cash Call Due Date, such amount will include interest as provided in the SETL Cost Sharing Agreement.

(b) Cash Call Schedule. The current estimate of the Cost Share for the Reserved Capacity being acquired for the benefit of the City is approximately $60 million, which cost is subject to adjustment from time to time as provided in the SETL Cost Sharing Agreement. The SETL Cost Sharing Agreement establishes a Cash Call Schedule to provide for the construction of segments of the Southeast Transmission Line, which schedule may be adjusted from time to time by the Project Director as necessary to reflect changes in the Project Schedule or Budget, including changes to address Unforeseen Conditions requiring Additional Funds in accordance with Section 4.6 of the SETL Cost Sharing Agreement. The Authority will he required to make deposits in the Account in approximately the amounts and on or before the dates set forth in the Cash Call Schedule (which schedule and associated payment amounts are subject to adjustment as specified in the applicable Notice of Upcoming Cash Call provided by Houston).

The Authority will provide a copy of each Notice of Upcoming Cash Call the Authority receives from Houston to the City, including those relating to Unforeseen Conditions requiring Additional Funds. To the extent that the Authority advances funds one or more Cash Calls, the SETL Cost Sharing Agreement provides that such funds shall accrue interest as provided in the SETL Cost Sharing Agreement and such interest shall be distributed as part of the True-up.

(c) Payment of Costs under the SETL Cost Sharing Agreement. In consideration for the Authority's entry into the SETL Cost Sharing Agreement for the benefit of the City and in order to facilitate the efficient and cost effective financing of the costs of the SETL Project, the City hereby agrees to the following arrangements for the funding of Cash Calls and other amounts due under the SETL Cost Sharing Agreement:

> (1) The City agrees to make an initial payment to the Authority in the amount of approximately $10 million in calendar year 2019, unless Houston adjusts the Cash Call Schedule as it relates to the Cost Share incurred for Phase 1 of the SETL Project, in which case the City's payment will be made in accordance with the modified Cash Call Schedule. The Authority shall use such funds for the purpose of making payments to Houston for the Cost Share incurred in connection with Phase 1 not later than thirty (30) calendar days following the receipt of such funds from the City.

(2) Subject to the conditions contained and as further described in Article IV of this Agreement. the Authority shall from time-to-time issue special revenue obligations of the Authority, and the proceeds of such Bonds shall be used by the Authority to (i) make payments to Houston under the SETL Cost Sharing Agreement for deposit in the Account for the payment of the Cost Share not paid pursuant to Subsection (c)(1), above, on or before each applicable Cash Call Due Date, including those relating to Unforeseen Conditions requiring Additional Funds, (ii) establish such funds and accounts as may be required under the Bond Resolutions authorizing the issuance of such Bonds, and (iii) paying the costs of issuance associated with such Bonds. The City hereby consents to the issuance by the Authority of Bonds from time-to-time for the purposes described in this Section 2.03(c)(2), including through available Texas Water Development Board financial assistance programs.

(3) Unless the Authority and the City agree otherwise, the City shall pay to the Authority any additional payment due from the Authority to Houston under the SETL Cost Sharing Agreement (other than those described in Subsection (c)(1) and (2), above) not less than ten (10) calendar days prior to the date on which the Authority is obligated to make payment to Houston, in an amount equal to the amount to be paid by the Authority to Houston as evidenced by an invoice or other communication from Houston to the Authority.

(4) To the extent that the Authority is entitled to any credits or refunds from Houston under the terms of the SETL Cost Sharing Agreement. such amounts will be allocated to the City and used to offset payments otherwise due from the City to the Authority under this Agreement.

(d) Plans and Specifications. To the extent the Authority receives copies of the plans and specifications for the SETL Project under Section 7.1.3 of the SETL Cost Sharing Agreement, the Authority shall provide the City with a copy of such plans and specifications. Except as otherwise provided in the SETL Cost Sharing Agreement, the City and the Authority agree that all designs, drawings, plans, specifications, reports, studies, or any other materials prepared for the SETL Project shall be the property of the Authority.

(e) Non- SETL Project Items. Prior to approving any Non-SETL Project Items under Section 7.3.3 of the SETL Cost Sharing Agreement, the Authority must receive the written approval of the City Manager of the City.

(f) Work Progress Report. The Authority shall provide the City with a copy of each quarterly Work Progress Report received by the Authority from Houston.

Section 2.04 Plant Cost Sharing Agreement. The following provisions are included in this Agreement for the purpose of providing for the arrangements with Houston to provide surface water to the City through the Authority which are reflected in the Plant Cost Sharing Agreement. Such provisions are to remain in force and effect only for so long as the Authority retains ownership rights in the Plant on behalf of the City.

(a) Approvals and Consent. It is understood and agreed that in those instances in which the Plant Cost Sharing Agreement requires or permits the approval or consent of the Participant Director, as that term is defined and used in the Plant Cost Sharing Agreement, such approval or consent shall be given only after the written approval and consent of the City Manager of the City. If one or more of the Authority customers of the Plant including the City give consent, but the City or other Authority customers of the Plant do not each give written approval and consent, the Authority shall provide such approval and consent as it determines in its discretion.

(b) Payment of Costs. Under certain circumstances set out in the Plant Cost Sharing Agreement, additions to or replacements or repairs for the Plant, or differences between estimated and actual costs may result in the obligation of the Authority to pay a share of costs incurred by Houston for such purposes. In addition, Section 3.8 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 3.8 of the 2001 Plant Cost Sharing Agreement) provides for the possibility of a Major Replacement (as defined in the Plant Cost Sharing Agreement) for the Plant.

Unless the City and the Authority agree otherwise, the City's share of any additional payment to Houston by the Authority under the Plant Cost Sharing Agreement (other than the payments described in Section 2.4.1 of the 2001

Plant Cost Sharing Agreement, Article 4 of the 2001 Plant Cost Sharing Agreement (which are addressed as Operating Charges), Article II of the 2007 Amendment and Article IV of the 2007 Amendment or payments described in (d) below shall be paid to the Authority by the City in the following manner:

(1) The City shall pay to the Authority in immediately available funds, not less than ten (10) calendar days prior to the date on which the Authority is obligated to make-payment to Houston, an amount equal to the amount to be paid to Houston as evidenced by an invoice or other communication from Houston. The amount payable by the City shall be its proportionate share of the amount to be paid to Houston for costs attributable to production plus its proportionate share of the amount to be paid to Houston for costs attributable to pumping and distribution. Costs for production, pumping and distribution shall be allocated in accordance with Exhibit II "Gulf Coast Water Authority" of the 2001 Plant Cost Sharing Agreement, as amended by Exhibit II "GCWA League City" of the 2007 Amendment.

(2) If the payment from the Authority to Houston is for a Major Replacement (as defined in the Plant Cost Sharing Agreement), and if payment is not made paid to Houston on or before the day Houston issues notice to the contractor to proceed, then pursuant to Section 3.8 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 3.8 of the 2001 Plant Cost Sharing Agreement) the expense shall be treated as a capital expense with funding temporarily supplied by the Houston's short term borrowing to be reimbursed by the City with interest within 270 calendar days. If the Authority and the City do not agree on a payment plan to be submitted to Houston by a date which is sixty (60) calendar days prior to the time payment to Houston is due, then, any other provision of this Agreement to the contrary notwithstanding, failure by the City to make payment in immediately available funds as provided in (b)(1) above shall be conclusively deemed to be consent by the City under this Agreement and any related Bond Resolutions to the issuance by the Authority of Bonds in an amount sufficient to make payment to Houston and pay the costs of issuing such Bonds. Fixed Charges payable by the City shall be adjusted to reflect the issuance of any such Bonds.

(c) Purchase and Sale of Rights: Use of Another's Capacity. The Authority agrees that it will, at the request of the City, cooperate fully and act on behalf of the City to allow the City to exercise the rights to sell water under Section 5.16 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 5.16 of the 2001 Plant Cost Sharing Agreement).

(d) Reduction of Supply. Under the circumstances set out in Section 3.9 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 3.9 of the 2001 Plant Cost Sharing Agreement) the supply of water to the Authority from the Plant may be reduced. In that event the Authority agrees that it will, at the City's request, request Houston to provide an alternate supply of water. If alternative supplies are not available in sufficient quantities to supply the City and the other Authority customers of the Plant at their respective Demand Allocation, the Authority or Houston shall be entitled to pro rate among the Authority's customers flow as required by Tex. Water Code § 11.039(a) and applicable law.

(e) Credits: Refunds. Any credit or refund of capital costs from Houston to the Authority related to the City's beneficial interest will be allocated to the City.

(f) Expansion of Plant. The Authority has a right of first refusal under Section 3.7 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 3.7 of the 2001 Plant Cost Sharing Agreement) to acquire production capacity and/or pumping capacity in any expansion of the Plant undertaken by Houston. The Authority agrees that the City shall have a right of first refusal to participate in any such expansion, in proportion to Authority's then current production capacity or pumping capacity rights under the Plant Cost Sharing Agreement. Such right of first refusal shall be exercisable by written notice to the Authority during the 150-day notice period provided for in Section 3.7 of the Plant Cost Sharing Agreement (for purposes of clarity, the section reference is to Section 3.7 of the 2001 Plant Cost Sharing Agreement).

Section 2.05 Capacity Reservation Contract. The following provisions are included in this Agreement for the purpose of providing for the arrangements with Houston to reserve for and deliver to the City the Contract Quantity as provided in the Capacity Reservation Contract. Such provisions are to remain in force and effect only for so long as the Authority is party to the Capacity Reservation Contract.

(a) Reservation of Contract Quantity. Subject to and condition upon the Authority's payment of the fees described in the Capacity Reservation Contract, Houston has agreed to reserve and deliver to the Authority for the benefit of the City, the Contract Quantity, which amount is in addition to the water that Houston currently delivers to the Authority for the benefit of the City under the Plant Cost Sharing Agreement. The City acknowledges and agrees that the Contract Quantity shall not be available for delivery to the Authority for the benefit of the City unless and until the Plant Expansion and the SETL Project are both completed and operational, subject to the terms and conditions described in the Capacity Reservation Contract.

(b) Payment of Costs under the Capacity Reservation Contract. In consideration for the Authority's entry into the Capacity Reservation Contract for the benefit of the City and in order to facilitate the efficient payment of costs under the Capacity Reservation Contract, the City hereby agrees to the following arrangements for the payment of such costs:

(1) To reserve the Contract Quantity, the Authority is required to pay Houston a nonrefundable annual Reservation Fee as described in Section 2.02 of the Capacity Reservation Contract. The City agrees to pay to the Authority an amount equal to the initial annual Reservation Fee not later than ten (10) calendar days prior to the date such payment is due under Section 2.02 of the Capacity Reservation Contract. Thereafter, the City agrees to pay to the Authority an amount equal to the annual Reservation Fee not later than thirty (30) calendar days prior to the date such payment is due under the Capacity Reservation Contract during the term of the Capacity Reservation Contract.

(2) Following the completion of the SETL Project and the Plant Expansion, the Contract Quantity will be delivered by Houston to the Authority for the benefit of the City under the terms and conditions set forth in the Plant Cost Sharing Agreement. At such time, the City shall pay for the Contract Quantity under the provisions of this Agreement governing the Plant Cog Sharing Agreement.

(3) The City further agrees to pay any other amounts due and owing to Houston under the Capacity Reservation Contract as evidenced by an invoice or other writing from Houston, it being the intention of the parties that the City shall be responsible for all costs and expenses under the Capacity Reservation Contract.

(c) Plant Expansion. Upon the request of the City, the Authority will undertake discussions with Houston regarding the execution of the Plant Expansion. The City acknowledges and agrees that the Plant Expansion, including any exploratory discussions with Houston. will be at the sole cost and expense of the City. It is the intention of the parties to address such Plant Expansion in a future contract or an amendment or supplement to this Agreement.

Section 2.06 Potential Plant Capacity Agreements. From time to time at the written request of the City, the Authority may enter into leases or purchase agreements with other Plant Cost Sharing Participants for the acquisition of water capacity for the benefit of the City. The City acknowledges and agrees that the Authority's entrance into any such leases or purchase agreements for water capacity, including negotiations with such other Plant Cost Sharing Participant, will be at the sole cost and expense of the City. The City also acknowledges that the sole source of funds for payment of the costs of water capacity under any such leases or purchase agreements will he payments from the City, and the City agrees to make such payments from time to time as required by any such agreement.

**Article III - Delivery of Water, Ownership and Operation**

Section 3.01 Point(s) of Delivery and Title. (a) Title to, possession and control of water delivered hereunder shall remain with Houston until such water shall pass through the flow control device(s) at the Point(s) of Delivery where title to, possession and control of such water shall pass to the City. Pursuant to the Plant Cost Sharing Agreement Section 3.15 (Backflow Prevention) (for purposes of clarity, the section reference is to Section 3.15 of the 2001 Plant Cost Sharing Agreement), the City shall install downstream each Point of Delivery an air gap or backflow prevention assembles downstream from the flow control device as required by Houston. A different or additional Point(s) of Delivery may be designated by the parties as circumstances may require subject to Houston's approval.

(b) The Authority is entitled to take water to which it is entitled under this Agreement at any Points of Delivery established pursuant to the Plant Cost Sharing Agreement or the SETL Cost Sharing Agreement.

Section 3.02 Quantities. (a) The Authority will acquire, on behalf of the City and hereby conveys and confirms a beneficial interest in the Plant as defined in the Plant Cost Sharing Agreement.

(b) The Authority agrees to deliver to the City in the manner, at the times, and for the price set out herein, water in amounts as required by the City up to the amounts to which the City is entitled pursuant this Agreement, and any additional water which may be acquired in the future for the use and benefit of the City.

(c) The City agrees that, to the extent that it is not using its full production capacity, pumping capacity or Reserved Capacity hereunder, a portion of such unused capacity may be used by the Authority; provided that the Authority shall be responsible for paying operating costs attributable to any portion so used, and provided further that the City shall at all times have the right to the full use of its production capacity, pumping capacity, and Reserved Capacity hereunder and that Authority's rights hereunder to use such unused capacity shall be subordinate and subject to the rights of the City in all respects.

Section 3.03 Pressure and Rate of Flow. In the Plant Cost Sharing Agreement and the SETL Cost Sharing Agreement. Houston has agreed to deliver water from the Plant to the Participant at a pressure meeting the requirements of state law at the respective Point(s) of Delivery and to impose certain rate of flow limitations. The Authority shall undertake reasonable efforts to enforce these provisions if requested by the City.

Section 3.04 Quality. The parties recognize that the source of water to be furnished by the Authority to the City under this Agreement is from the Plant and the Authority shall not be responsible for the quality of water as produced by the Plant.

Section 3.05 Measuring Equipment. (a) Pursuant to the SETL Cost Sharing Agreement and the Plant Cost Sharing Agreement, and Houston shall install, own, maintain, and replace at the Point(s) of Delivery (or the Point(s) of Measurement, as defined in the SETL Cost Sharing Agreement, if different) the necessary equipment and devices of standard type for measuring properly the quantity of water received from Houston and delivered to the City under this Agreement and the Authority shall have no responsibility with respect to such metering. Such meter or meters or other equipment so installed shall be the property of Houston. The City and the Authority shall have access to such metering equipment at all reasonable times, but the reading, calibration and adjustment thereof shall be done only by the employees or agents of Houston.

(b) Upon written request of the City, the Authority shall request Houston to give the Authority and the City access to books and records pursuant to the terms of the Plant Cost Sharing Agreement. Upon written request of the City, the Authority shall request Houston to calibrate its meters relating to the delivery of water to the City and shall exercise the Authority's rights relating to calibration of meters and check meters.

(c) All obligations of the Authority as a Plant Cost Sharing Participant under the Plant Cost Sharing Agreement to supply back flow or air gap assembly and similar operational facilities or equipment shall be the responsibility of the City and upon written request of the Authority, the City shall comply with such obligations.

(d) The Authority agrees to convey to the City by separate instrument any retained interest held by the Authority in the Deeded Property as shown in the Special Warranty Deed. The City shall operate and maintain at its own expense the Deeded Property and all necessary equipment and devices to measure properly the quantity of water received from the Authority and delivered to the City under this Agreement and the Authority shall have no responsibility with respect to such metering. Any meter or meters or other equipment installed shall be the property of the Authority. The Authority shall have access to such metering equipment at all reasonable times, but the reading, calibration and adjustment thereof shall be done only by the employees or agents of the City. For the purpose of this Agreement, the original record or reading of the meter or meters shall be in a journal or other record book of the City in its offices in which the records of the employees or agents of the City who take the readings with respect to delivery of water may be transcribed in the event of a discrepancy between the City and Houston.

Section 3.06 Annual Operating Budget. (a) The Authority shall deliver by mail or electronic delivery, whichever is preferred by the City, a copy of the budget prepared by Houston and submitted to the Authority within five business days of the Authority's receipt of such budget.

(b) The Authority shall prepare and submit to the City for approval, at least sixty (60) calendar days prior to the beginning of each Authority fiscal year a budget for the cost of water supplied to the City under this Agreement for the ensuing year, including general administrative expenses and overhead of the Authority, in an amount not to exceed $5,000 per month, and direct charges (e.g. legal, engineering, and financial advisory services) attributable to the matters covered by this Agreement. Any annual budget may be amended with the written approval of the Authority and the City.

Section 3.07 Ownership of the SETL Project. It is expressly agreed and understood that the Authority will own a beneficial interest in the SETL Project for the benefit of the City.

Section 3.08 Operation of the SETL Project. (a) Section 11.15 of the SETL Cost Sharing Agreement provides that the SETL Participants will negotiate in good faith an agreement for the operation and maintenance of the Southeast Transmission Line.

(b) From and after the completion of the SETL Project the Authority shall provide for the operation and maintenance of the SETL Project in a manner that will best assure that such facilities shall remain in good operational condition consistent with their intended uses under an agreement with Houston and other participants in the SETL Project as contemplated in Section 11.15 of the SETL Cost Sharing Agreement. The operation and maintenance of the SETL Project shall be at the sole cost and expense of the City throughout the term of this Agreement.

Section 3.09 City's Consent to Pipelines, etc. If any water main, pipeline or appurtenance of the Authority should be located on any land now or hereafter owned or under the control of the City or within the present or future boundaries or extraterritorial jurisdiction of the City, the City hereby consents thereto or will grant to the Authority the right or privilege, easement, right-of-way and franchise to use such land for the purpose of maintaining, operating, laying, repairing and removing such water mains, pipelines and appurtenances until termination of this Agreement.

Section 3.10 Serving Other Customers. (a) The parties recognize that the Authority contemplates the construction of additional facilities to serve other cities, towns, conservation districts, industries and customers and nothing in this Agreement shall be construed to hinder or impair the Authority's power and privilege to do so. No part of the capital or operating costs of any such facilities constructed or acquired solely for the benefit of other customers shall be charged to the City; provided that the Authority's general overhead and administrative expenses shall be allocated on an equitable basis among all of the Authority's customers.

(b) The Authority and the City may agree to increase or decrease the City's entitlement in the capacity of the Plant, the SETL Project or other facilities during the term of this Agreement. Nothing herein shall prevent the Authority from contracting to sell water to other customers through these or other facilities acquired by the Authority for the conveyance of water provided that nothing in any such contract shall impair the ability of the Authority to deliver to the City the full daily quantity of water. The City may sell any portion of the water received by it under this Agreement to third parties so long as, in the written opinion of nationally recognized bond counsel acceptable to the Authority, such sale would not adversely affect the exemption of interest on the Bonds in the hands of the owners of such bonds; and provided that no such sales shall reduce the City's obligation to the Authority to pay Fixed Charges or Operating Charges on water delivered to the City pursuant to this Agreement.

Section 3.11 Water Conservation and Drought Contingency Programs. The City shall approve and implement a water conservation plan and a drought contingency plan as required by the Texas Commission on Environmental Quality pursuant to 30 TAC § 288. The City agrees to amend its water conservation plan and/or drought contingency plan, as necessary, to reflect amendments in state law, and the water conservation plans and drought contingency plans of Houston and the Authority as they apply to the water subject to this Agreement.

Section 3.12 Purchase and Sale Agreement. Nothing in the Water Supply Contract shall be construed or alter the terms of the Water Capacity Purchase and Sale Agreement.

Section 3.13 Replacement of League City Line and Emergency Water Supply. (a) Replacement of League City Line. When necessitated by catastrophic failure or the lines reaching the end of their useful life, the costs of the replacement of or a mutually acceptable alternative rehabilitation process for the lines that include the 1971 Project running from an origination point at the City's pump station located in the City of Webster, Texas to a termination point at the Calder Meter Station (the "League City Line," as depicted in Exhibit E) will be shared between the City and the Authority, with eighty percent (80%) of such replacement or mutually acceptable alternative rehabilitation costs to be borne by the City and twenty percent (20%) to be borne by the Authority. If the replacement of the League City Line is necessitated by other than catastrophic failure or the end of its useful life, the parties will meet to discuss the extent to which the replacement is beneficial to the Authority and the extent, if any, of the Authority's participation in the replacement project. The City acknowledges and agrees that the only source of funds available to the Authority for any such replacement is the charges imposed by the Authority and paid by the Mainland Customers pursuant to the Mainland Water Project Customer Contracts, as amended, and any successor contracts thereto.

(b) Emergency Supply to Authority through League City Line. As consideration for the Authority's agreement to participate in the costs described in subsection (a), in the event of a drought or other emergency affecting the Authority's water supply the Authority shall have a right to and the City shall deliver to the Authority for the benefit of the Authority's customers an amount of water equal to a minimum of twenty percent (20%) of the total capacity held by the Authority for the benefit of the City in the Plant, as such capacity may be adjusted from time to time under contracts with Houston. The City's obligation to deliver such volume of water shall be subject to the pumping capacity of the City's pump station located in the City of Webster and any physical and hydraulic limitations on the ability of the Authority's water transmission system to receive such volume of water. The City will deliver such water to the Authority at a delivery point south of the Calder Meter Station as depicted on Exhibit E. The City agrees to use its best efforts to provide such water to the Authority, including but not limited to implementing its drought contingency plan and utilizing wells as necessary to facilitate the delivery of the agreed upon volume of water. The price for water delivered to the Authority under this provision will be a pass through of the cost of such water under the Authority's contracts with Houston. The City acknowledges and agrees that the only source of funds available to the Authority for any such costs is the charges imposed by the Authority and paid by the Mainland Customers pursuant to the Mainland Water Project Customer Contracts, as amended, and any successor contracts thereto.

(c) Emergency Water Supply to the City through the League City Line. In the event of an emergency affecting the City's water supply received from the Plant, the Authority will use reasonable efforts to provide emergency water supply to the City from the Authority's Mainland Division or its successor. The Authority will deliver such water to the City at a delivery point south of the Calder Meter Station as depicted on Exhibit E. The parties recognize that the Authority's ability to supply emergency water through the Mainland Division is limited by its contracts with other Authority customers as well as the physical and hydraulic limitations of the water system. As a result, the Authority cannot commit to supply a specific volume of water or guarantee that water will be available in the event of an emergency. The price for water delivered to the City under this provision will be the rate paid by the City for the water it receives from the Mainland Division or its successor under the City's contracts with the Authority.

**Article IV - Issuance of Bonds**

Section 4.01 Issuance of Bonds

(a) Subject to the Authority's receipt of all requisite approvals from all federal, state and local agencies having regulatory jurisdiction over the Authority, the Authority shall issue Bonds in one or more series at such time or times and in such amounts as the Authority shall deem appropriate to finance the estimated costs of the Project. The Authority and the City hereby agree that Bonds may be issued to fund one or more Cash Calls at the discretion of the Authority.

(b) The Authority shall use its best efforts to sell the Bonds, within the limits prescribed by law, under terms that are the most advantageous reasonably attainable by the Authority at the time of the sale.

(c) The Bonds shall be special revenue obligations of the Authority payable from and secured solely Fixed Charges Payments to be made by the City under the Agreement, certain proceeds of the Bonds, and other amounts from time to time on deposit in various funds and accounts created under the Bond Resolutions authorizing the issuance of such Bonds.

(d) The City hereby agrees to promptly furnish the Authority with such certificates, data, projections and related information as may be required or requested by the Authority (i) in connection with the sale of the Bonds in order to comply with all applicable laws, rules and regulations, including 17 CFR 240.15c2-12 (municipal securities disclosure), as amended, and (ii) the approval of the Bonds by the Attorney General of the State. The City further covenants and agrees to provide to the Authority with such financial information, data, projections and related information as may reasonably be required by the Authority in connection with the sale of the Bonds and ongoing compliance with all applicable laws, rules and regulations relating to the issuance of such Bonds. Further, the City agrees to cooperate with the Authority in the issuance of any Bonds and the preparation of any offering document or application relating to such Bonds.

(e) The Authority shall submit to the City for review a copy of the official statement, if any, the Bond Resolution and the terms of the sale of the Bonds or other Bonds to be issued to finance or refinance the cost of the Project.

(f) Following sale of each series of Bonds, the Authority shall furnish the City with a maturity schedule showing the annual payments required to pay all interest on and principal of the Bonds when and as the same shall become due and payable (including all sinking fund payments to be made in respect of the Bonds).

(g) The Authority and the City may mutually determine in the future that it is in the best interest of the City and the Authority to refinance the Bonds, any Bonds previously or subsequently issued to finance or refinance the Project, or any Bonds issued to complete or improve the Project, and to issue additional series of Bonds for such purposes as may be authorized under a Bond Resolution of the Authority authorizing issuance of the Bonds and any additional or supplemental Bond Resolutions adopted by the Authority in connection with the issuance of any such refunding bonds or additional bonds.

(h) The Authority and the City covenant and agree that tax-exempt obligations are outstanding neither of them shall use or permit to be used any of the Project acquired under this Agreement in any manner or for any purpose which would cause any such Bond to be deemed a "private activity bond" within the meaning of Section 141 of the Code, or as an "arbitrage bond" within the meaning of Section 48 of the Code.

(i) With respect to any Bonds issued for the SETL Project, the Authority shall apply the proceeds of each series of Bonds as provided in the Bond Resolution authorizing such series of Bonds and for the purposes described in Section 2.03 of this Agreement. Any amounts remaining in the applicable project fund after payment of the Cash Calls or completion of the portion of the SETL Project being financed with such series of Bonds shall be applied (a) to make payments in connection with future Cash Calls, (b) to pay debt service on such series of Bonds by calling and redeeming Bonds prior to maturity and/or transferring such remaining amounts to the interest and sinking fund for the Bonds, or (c) utilized as may be required by federal tax law in order to maintain the tax status of such series of Bonds.

(j) With respect to Bonds issued for portions of the Project other than that SETL Project, the Authority shall apply the proceeds of each series of Bonds as provided in the Bond Resolution authorizing such series of Bonds. Any amounts remaining in the project fund after completion of the portion of the Project being financed with such series of Bonds shall be applied (a) to make payments in connection with future portions of the Project, (b) to pay debt service on such series of Bonds by calling and redeeming Bonds prior to maturity and/or transferring such remaining amounts to the interest and sinking fund for the Bonds, or (c) utilized as may be required by federal tax law in order to maintain the tax status of such series of Bonds.

(k) The City shall have the right to cause the Authority to redeem or defease the Bonds prior to their scheduled maturities, in whole or in part, as authorized by the applicable Bond Resolution. The City shall provide the Authority with written notice of such early redemption, including the maturities and amounts to be redeemed and evidence satisfactory to the Authority of the City's obligation to pay the principal amount of. plus accrued interest on, such bonds scheduled for early redemption.

(1) Nothing contained in this Agreement is intended to modify (i) the Authority's obligation to charge and collect or the City's obligation to make Contract Payments, as such term is defined in the bond resolution authorizing the issuance of the Series 2011 Bonds, (ii) any funds and accounts established under the bond resolution

authorizing the issuance of the Series 2011 Bonds, or (iii) the rights of the holders of the outstanding Series 2011 Bonds.

Section 4.02 Reserve Funds. Each bond resolution of the Authority authorizing a series of Bonds may provide for the establishment and maintenance of one or more reserve funds to be used by the Authority for the following purposes:

(a) a debt service reserve fund may be used to prevent a default in the payment of principal of, premium, if any, and interest on and paying agent/registrar fees on the Bonds if there is insufficient money for such purposes in the interest and sinking fund established for such Bonds;

(b) an operating reserve may be used to pay for the repair and replacement or operating charges of the Project: and

(c) such other reserve funds as may be required in connection with the financing or refinancing of the Project.

Section 4.03 Additional Bonds. The Authority reserves the right to issue additional Bonds payable from the same source as the Bonds, which bonds may be secured by a lien on and pledge of such sources, which is senior to, on parity with or junior to those securing any then outstanding Bonds, to finance any costs of completing the Project and to finance any additions, extensions or improvements to the Project or other facilities, but the Authority will not issue any such additional Bonds payable from payments made by the City under this Agreement (beyond those to which the City has consented in Article II of this Agreement) without the prior written consent of the City.

Section 4.04 Special Project Bonds. Following the retirement of the Series 2011 Bonds, the Authority shall reserve the right in each Bond Resolution authorizing the issuance of Bonds. to issue bonds (hereinafter called "Special Project Bonds") for the purpose of constructing, acquiring, adding to, expanding or extending facilities to serve any new or existing water customers of the Authority. Facilities constructed or acquired with the proceeds of Special Project Bonds or paid for by any new or existing water customers of Authority, and any addition to or expansion or extension of any part of the Project, to the extent financed with the proceeds of Special Project Bonds or paid for by any new or existing water customers of Authority, are hereinafter called "Special Project Facilities"; and any new or existing customers served in whole or in part by Special Project Facilities are hereinafter called "Special Project Customers." The principal of and interest on Special Project Bonds shall be payable from revenues derived from Special Project Facilities, and the expenses and other expenditures attributable to Special Project Facilities shall not be charged to the City (unless the City is the Special Project Customer). The Authority's general overhead and administration expenses and any other expenses and expenditures applicable to both Special Project Facilities and the Project shall be apportioned between them in a reasonable manner.

**Article V- Payments By the City to the Authority**

Section 5.02 Amounts of Payments. As full and complete consideration for the services to be performed by the Authority hereunder, for so long as any of the Bonds are outstanding under Bond Resolutions that authorized the issuance of such Bonds, the City shall pay to the Authority a sum equal to the following payments:

(a) Fixed Charges. All costs and expenses paid or incurred by the Authority in connection with the financing or refinancing of the Project (collectively, the "Fixed Charges"), including without limitation, the following:

(1) payments of principal (whether upon maturity or earlier optional or mandatory redemption) redemption premium, if any, and interest that the Authority makes on all Bonds and amounts that the Authority is required to make into any sinking fund, debt service reserve fund, operating and maintenance reserve fund or account under the terms of the applicable bond resolution:

(2) amounts related to the Bonds and required under the applicable bond resolution to be paid or deposited into any fund or account established by such bond resolution (other than funds and accounts referred to in clause (1) above), including any amounts required to be paid or deposited by reason of the transfer of monies from such funds or accounts to the funds or accounts referred to in clause (1) above,

provided that the City shall receive credits against any amounts due under the preceding paragraph (1) or this paragraph (2) for investment earnings (net of any losses and expenses), if any, on amounts deposited in any funds created under such bond resolution and required to be paid by the City under the preceding paragraph (1) or this paragraph (2);

(3) amounts which the Authority is required to pay under any credit agreements, agreements with any trustee, bond insurer, escrow agent, tender agent, or paying agent. or remarketing costs related to the Bonds;

(4) additional amounts that must be realized by the Authority in order to meet the requirement of any rate covenant contained in the applicable bond resolution with respect to coverage of principal of, premium, if any, and interest on the Bonds;

(5) the cost of preparing any arbitrage rebate reports and any arbitrage rebate payment payable to the United States of America in accordance with Section 148 of the Code, together with all fiscal agent and legal fees and expenses associated with such payments, provided the Authority timely files arbitrage reports with the Internal Revenue Service and has made good faith efforts to minimize arbitrage rebate payments; and

(6) all costs relating to continuing disclosure obligations in connection with the Bonds.

(b) Operating Charges. Operating Charges in the rate schedule applicable to the City shall include the following items:

(1) With respect to the 1971 Project: The City shall maintain and operate, at its sole expense the Deeded Property. The City shall maintain and operate such properties and facilities in accordance with prudent utility practices and shall keep such properties and facilities insured to the extent and in the manner commonly insured by other public utilities owned or operating similar properties and facilities. The City shall operate any other portions of the 1971 Project still owned by the Authority and shall pay such costs in Operating Charges, except for the Calder Meter Station which the Authority will maintain. The charges for emergency water provided through the League City Line shall be as described in Section 3.13 of this Agreement.

(2) With respect to the 1987 Project, the 2001 Project and the 2007 League City Project: Operating Charges for the 1987 Project, the 2001 Project and the 2007 League City Project shall include the following:

(i) all sums which are due and payable to Houston from time to time under the Plant Cost Sharing Agreement with respect to the 1987 Project, the 2001 Project and the 2007 League City Project, including without limitation, payments due under Article 4 of the Plant Cost Sharing Agreement; and

(ii) and any costs incurred by the Authority or directly arising out of the ownership and operation of the 1987 Project, the 2001 Project and the 2007 League City Project, including costs and expenses of any claim or cause of action asserted against the Authority, even if asserted by the City and even if due to the Authority's negligence, except to the extent that the Authority receives funds from a related insurance claim.

Plant Cost Sharing Participants who increase their Demand Allocation in the 200 MGD Project may pay the Managing Participant's standard contract rates for untreated water currently described in the City of Houston Code of Ordinances Section 47-85 or may alternatively elect to pay an existing untreated water Capital Charge, untreated water New Debt Service Expenses, and Untreated Water O&M (each as defined in the 2007 Amendment) in accordance to Article VII of the 2007 Amendment. The Authority will use its best efforts to exercise the option elected by the City for the untreated water.

(3) City Plant Cost Sharing Agreement Charges. The "City Plant Cost Sharing Agreement Charges," which shall be in an amount equal to all of the costs, expenses and payments described in Section 2.04(b) of this Agreement.

(4) City SETL Cost Sharing Agreement Charges. The "City SETL Cost Sharing Agreement Charges," which shall be an amount equal to all of the costs, expenses, and payments described in Section 2.03(c)(1) and (3) of this Agreement.

(5) City SETL Operating Charges. The "City SETL Operating Charges," which shall be in an amount equal to the operations and maintenance expenses described under Section 3.08 of this Agreement, which amounts may be further described in an agreement with Houston and the other participants in the SETL Project as contemplated in Section 11.15 of the SETL Cost Sharing Agreement.

(6) Authority Administrative Expenses Charges. The Authority "Administrative Expenses Charges," which shall be the amounts necessary to compensate the Authority for the general administrative expenses and overhead of the Authority, in an amount not to exceed $5,000 per month, and direct charges (e.g. legal, engineering, and financial advisory services) incurred in connection with the management of the Plant Cost Sharing Agreement, SETL Cost Sharing Agreement, the Capacity Reservation Contract, Plant capacity agreements, and any agreement providing for the operation of the Project or SETL Project, the management of the Bonds, and the operation, maintenance or inspection of the Project or SETL Project. The Authority Administrative Expenses Charges shall be based on the budgets prepared by the Authority. The Authority will use reasonable efforts to provide the City with a draft of each annual budget two (2) months prior to the effective date of such budget.

(7) City Capacity Reservation Contract Charges. The "City Capacity Reservation Contract Charges," which shall be an amount equal to all of the costs, expenses, and payments described in Section 2.05(b) of this Agreement.

Section 5.03 Timing of Payments. (a) Fixed Charges Payments. Payments of Fixed Charges (the "Fixed Charges Payments") shall be payable in periodic payments as follows:

(1) For the purpose of paying current debt service on the Bonds and maintaining required reserve funds the following monthly payments shall be made by the City not later than the 20th day of the month:

(i) One-sixth (1/6th) of the interest payments on all of the Bonds then outstanding that are due and payable on the next interest payment date; plus

(ii) One-twelfth (1/12th) of all principal payments (whether at maturity or by reason of any mandatory or extraordinary redemption provisions) on all Bonds that are due and payable on the next principal payment or redemption date and the costs of any credit agreements entered into in connection with the Bonds; plus

(iii) One-sixth (1/6th) of all paying agent/registrar, trustee fees, and other expenses paid in connection with the Bonds; plus

(iv) The monthly amount required to be deposited into a debt service reserve fund, if any, or operating and maintenance reserve fund, if any, in order to ensure the maintenance of the proper balance in such reserve fund in the manner set forth in the bond resolution authorizing the issuance of Bonds.

(2) For Fixed Charges not described in subsection (a)(1), above, Fixed Charges Payments shall be promptly made by the City to the Authority upon receipt of a written request therefor.

(b) Payments of Operating Charges. Operating Charges shall be payable in periodic payments as follows:

(1) The Authority shall bill the City for Operating Charges described in Section 5.02(b)(2) monthly, or at such other interval as may be agreed to by the parties. Such bills will be sent to the City by the 10th day of the month and shall be due and payable on the 20th day of such month.

(2) City Plant Cost Sharing Agreement Charges Payments. Payments of the City Plant Cost Sharing Agreement Charges (the "City Plant Cost Sharing Agreement Charges Payments") shall be made at the times described in Section 2.04(b) of this Agreement.

(3) City SETL Cost Sharing Agreement Charges Payments. Payments of the City SETL Cost Sharing Agreement Charges (the "City SETL Cost Sharing Agreement Charges Payments") shall be made at the times described in Section 2.03 of this Agreement.

(4) City SETL Operating Charges Payments. Payments of the City SETL Operating Charges (the "City SETL Operating Charges Payments") shall be made in accordance with the agreement contemplated by Section 11.15 of the SETL Cost Sharing Agreement.

(5) Authority Administrative Expenses Charges Payments. Payments of the Authority Administrative Expenses Charges (the "Authority Administrative Expenses Charges Payments") shall be made monthly by the City to the Authority in an amount equal to one-twelfth (1/12th) of the estimated annual authority administrative expenses described in Section 5.02(b)(6) of this Agreement. For any Authority Administrative Expenses Charges not covered through the annual budget process, Authority Administrative Expenses Charges Payments shall be promptly made by the City to the Authority upon receipt of a written request therefor.

(6) City Capacity Reservation Contract Charges Payments. Payments of the City Capacity Reservation Contract Charges (the "City Capacity Reservation Contract Charges Payments") shall be made at the times described in Section 2.05(b) of this Agreement.

Section 5.04 Source of Payments. (a) The City and the Authority recognize that the Bonds will be payable from, and secured by, a pledge of the Fixed Charges Payments to be received by the Authority under this Agreement and that in order to make the Bonds marketable at the lowest available interest rate, it is to the mutual advantage of the City and the Authority that the City's obligation to make the payments required hereunder be unconditional. All sums payable hereunder to the Authority shall, so long as any part of the Bonds are outstanding and unpaid, be paid by the City without set-off, counter-claim, abatement, suspension or diminution except as otherwise expressly provided herein. So long as any part of the Bonds are outstanding and unpaid, this Agreement shall not terminate, nor shall the City have any right to terminate this Agreement nor be entitled to the abatement of any payment or any reduction thereof nor shall the obligations hereunder of the City be otherwise affected for any reason, it being the intention of the parties that so long as any part of the Bonds are outstanding and unpaid, all sums required to be paid by the City to the Authority shall continue to be payable in all events and the obligations of the City hereunder shall continue unaffected, unless the requirement to pay the same shall be reduced or terminated pursuant to an express provision of this Agreement. The amounts owed by the City under this Agreement shall be payable by the City, notwithstanding the suspension, interruption, temporary or permanent termination or unavailability of water from the Plant or through the SETL Project or the Project in whole or in part, or damage to the Plant, the SETL Project or the Project for any reason whatsoever, and shall not be subject to any reduction, whether by offset or otherwise.

(b) All payments required to be made by the City to the Authority under this Agreement shall be payable from the revenues and income received by the City from the ownership and operation of its water and sewer system. The Authority shall never have the right to demand payment by the City of any obligations assumed by or imposed upon it under or by virtue of this Agreement from any funds raised or to be raised by taxation, and the City's obligations under this Agreement shall never be construed to be a debt of the City of such kind as to require it under the Constitution and laws of the State to levy and collect a tax to discharge such obligation. Nothing in this Section, however, shall be construed as preventing the City, in its sole discretion, from making any such payment from sources other than revenues and income of the City's water and sewer system. Pursuant to the provisions of Section 791.026, Texas Government Code, the payments made hereunder shall be an operating expense of the City's water system and sewer system.

(c) During the term of this Agreement, so long as the Authority has potable water available from the Plant under the Agreement or from the Mackey Plant under water supply contracts with the Authority to supply the City in amounts sufficient to meet the City's needs, the City shall not obtain potable water from a source other than the Authority except (i) from facilities owned by the City or contracted for on the date hereof, (ii) from groundwater sources now or hereafter available to the City, (iii) as may otherwise be permitted by the City's contracts with the Authority, or (iv) with the consent of the Authority.

(d) The City covenants and agrees to fix and maintain such rates and collect such charges for the facilities and services provided by its water and sewer system as will be adequate to permit the City to make prompt payment of all expenses of operating and maintaining the City's water and sewer system, including all payments under this Agreement, and to make prompt payment of the interest on and principal of the bonds or other obligations of the City payable, in whole or in part, from the revenues of its water and sewer system. The City pledges such revenues to payment of the amounts due hereunder to the Authority.

(e) The City covenants and agrees that any Fixed Charges Payment to the Authority required by this Article V shall be absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever.

**Article VI - Defaults and Remedies**

Section 6.01 Default. The following shall be considered a default under this Agreement:

(a) the failure of the City to make any monetary payment when due under this Agreement; or

(b) the failure of either party to perform and observe in a timely manner any nonmonetary obligations or covenants contained in this Agreement and such failure is not cured within thirty (30) calendar days after notice, specifying such default, is given to the non-performing party by the other party; provided, however. that if the nonperformance cannot reasonably be cured within thirty (30) calendar days. then no default shall occur if, and as long as, the party has initiated all remedial action reasonably possible within the thirty (30) calendar-day period and thereafter continues diligently to remedy the failure.

Section 6.02 Remedies

(a) It is not intended hereby to specify (and this Agreement shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination of this Agreement) existing at law or in equity may be availed of by either party and shall be cumulative. Recognizing, however, that the Authority's undertaking to provide and maintain a supply of water hereunder is an obligation, failure in the performance of which cannot be adequately compensated in money damages alone, the Authority agrees, in the event of any default on its part, that the City shall have available to it the equitable remedy of specific performance in addition to any other legal or equitable remedies (other than termination of this Agreement) which may also be available to the City. Recognizing that failure in the performance of any of the City's obligations hereunder could not be adequately compensated in money damages alone, the City agrees in the event of any default on its part that the Authority shall have available to it the equitable remedy of specific performance in addition to any other legal or equitable remedies (other than termination of this Agreement but including the right to cease delivery of water for non-payment of the City's obligations hereunder) which may also be available to the Authority. Notwithstanding anything to the contrary contained in this Agreement, any right or remedy or any default hereunder shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two years after the occurrence of such default.

(b) The Authority recognizes the great importance of the water supply provided by this Agreement to the health and welfare of the City and its citizens and that the City is a principal beneficiary of the Plant Cost Sharing Agreement, the SETL Cost Sharing Agreement and the Capacity Reservation Contract. If Houston should at any time default in the performance of its obligation to deliver water to the Authority, thereby impairing the Authority's ability to deliver water to the City, the Authority covenants and agrees with the City to proceed promptly and with diligence to require Houston to remedy such default, failing which the City shall have the right to proceed in its own name, or in the name and on behalf of the Authority to enforce by judicial action or otherwise the Authority's contractual and statutory rights to the delivery of water from the Plant.

(c) if a monetary default shall occur and be continuing. the Authority shall have the right to cease delivery of water through the Project by giving to the City thirty (30) calendar days' advance written notice of the effective date of such cessation. Such cessation, however, shall not be effective if prior to the effective date of cessation the City shall have fully paid such bill and the interest accrued thereon. In addition, the Authority shall have the right to terminate all of the City's other rights, including the City's right to receive delivery of water, but not the City's monetary and non-monetary obligations, under this Agreement. No termination of rights pursuant to this Section 6.02(c) shall have the effect of relieving the City of any liability which it would otherwise have had if no such termination had occurred.

(d) The Authority and the City may commence suits, actions or proceedings at law or in equity, including suits for specific performance as may be necessary or appropriate to enforce the obligations of the defaulting party.

Section 6.03 No Additional Waiver Implied. No waiver or waivers of any breach or default (or any breaches or defaults) by either party hereto of any term, covenant, condition, or liability hereunder or of performance by the other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character, or description under any circumstances.

Section 6.04 Force Majeure. If Force Majeure prevents either party hereto from performing any of its obligations under this Agreement (except the unconditional obligation of the City to make the payments required in Article V), in whole or in part, then the obligations of such party, to the extent affected by such Force Majeure, shall be suspended during the continuance of any inability so caused, so long as such party is exercising due diligence to resume performance at the earliest practicable time. As soon as reasonably possible after the occurrence of the Force Majeure relied upon, the party whose contractual obligations are affected thereby shall give notice and full particulars of such Force Majeure to the other party. No damage shall be recoverable from the Authority by reason of the temporary suspension of delivery of water due to any Force Majeure. If the Authority's ability to deliver water to the City is affected by any Force Majeure, the Authority shall promptly forward to the City Director of Public Works any information the Authority receives from Houston in writing as soon as practicable. Nothing in this Section shall prevent the Authority from asserting damages against any third party for interruption of services, in which event the Authority and the City shall share in the proceeds of any recovery, to the extent of their respective damages. The term "Force Majeure," as used herein, shall include, without limitation of the generality thereof, acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, orders of any kind of the Government of the United States, of the State, of any civil or military authority, insurrections, riots, epidemics, landslides, drought, lightning, earthquakes, fires, hurricanes, storms, floods, water of unusable quality, washouts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to the Authority's or Houston's machinery, pipelines or canals, or of damage to the Authority's water conveying system caused by events beyond the Authority's control, default by Houston in delivering water to the Authority, and any other inabilities of either party, whether similar to those enumerated or otherwise, which are not within the control of the party claiming such inability, and which such party could not have avoided by the exercise of due diligence and care. It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of the opposing party or parties when such settlement is unfavorable to it in the judgment of the party having the difficulty.

**Article VII - Term and General Provisions**

Section 7.04 Effective Date: Term. This Agreement shall be in full force and effect from the date of the last party executes this Agreement and, unless sooner terminated by agreement, shall remain in force until the later of termination of the Plant Cost Sharing Agreement or the SETL Cost Sharing Agreement or the Capacity Reservation Contract; provided that the obligations of the City to make payments of "Fixed Charges" hereunder shall be, and the same are hereby agreed to be, unconditional. under any circumstances, including termination, so long as any Bonds remain outstanding and unpaid as to either principal or interest, and provided further that the Authority shall not agree to a termination of the Plant Cost Sharing Agreement or the SETL Cost Sharing Agreement or the Capacity Reservation Contract without the City's prior written consent to such termination.

Section 7.07 Assignability. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, but this Agreement shall not be assignable by the Authority without the prior written consent of the City and shall not be assignable by the City without the prior written consent of the Authority. Whenever reference is made in this Agreement to either of the parties hereto, such reference shall be deemed to include, wherever applicable, a reference to the permitted successors and assigns of such parties.

## THE RESOLUTION

Selected provisions of the Resolution are summarized below. This summary is not a complete recital of the terms of the Resolution and reference is made to the Resolution in its entirety, copies of which are available upon request to the Financial Advisor. Provisions summarized herein may change prior to pricing and may thereafter be amended in accordance with the terms of the Resolution.

### Selected Definitions

"Additional Bonds" means additional parity contract revenue bonds, notes or credit agreements permitted to be issued or entered into by Sections 9.03 through 9.05 of the Resolution.

"Act" means Chapter 712, Acts of the 59th Texas Legislature, 1965, as amended (compiled as Article 8280-339 Vernon's Texas Civil Statutes, as amended), Section 791.026 of the Texas Government Code, as amended, and Chapter 1371 of the Texas Government Code, as amended.

"Authority" means the Gulf Coast Water Authority and where appropriate, the Board, and any successor entity.

"Authorized Officer" means the General Manager or the Assistant General Manager of the Authority.

"Board" means the Board of Directors of the Authority, being the duly authorized and governing body of the Authority.

"Bond Resolutions" means collectively the bond resolutions adopted by the Authority in connection with the issuance of the Bonds, any resolution authorizing the issuance of Additional Bonds, and any subsequent bond resolution adopted in connection with bonds issued to refund or refinance any of such bonds if such refunding bonda are issued as Parity Bonds.

"Bonds" means the Authority's Contract Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 (Tax Exempt) authorized to be issued by Section 3.01 of the Resolution.

"Business Day" means any day which is not a Saturday, Sunday, or a day on which the Paying Agent/Registrar is authorized by law or executive order to close, or a legal holiday.

"City" means the City of League City, Texas.

"City SETL Cost Sharing Agreement Charges" has the meaning ascribed to such term in the Water Supply Contract.

"City SETL Operating Charges" has the meaning ascribed to such term in the Water Supply Contract.

"Closing Date" means the date of the initial delivery of and payment for the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

"Dated Date" means the date designated as the date of the Bonds in the Pricing Certificate.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named in this Resolution, the Designated Payment/Transfer Office as designated in the Paying Agent/Registrar Agreement, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the Authority and such successor.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Favorable Opinion of Bond Counsel" means an opinion of nationally recognized bond counsel to the effect that an action, or omission of an action, will not adversely affect the excludability of interest payable on the Bonds from gross income for federal income tax purposes.

"Financial Obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

"Fiscal Year" means the twelve month fiscal year period of the Authority, which is currently the twelve month period beginning September 1 and ending on August 31 of the subsequent year, but which may be changed from time to time.

"Fixed Charges" has the meaning ascribed to such term in the Water Supply Contract.

"Fixed Charges Payments" has the meaning ascribed to such term in the Water Supply Contract.

"Houston" means the City of Houston, Texas.

"Initial Bond" means the Initial Bond for each series of Bonds authorized by Section 3.04(d).

"Interest and Sinking Fund" means the fund by that name established pursuant to Section 7.03.

"Interest Payment Date" means the date or dates upon which interest on the Bonds is scheduled to be paid, as designated in the Pricing Certificate.

"Issuance Date" means the date of the initial delivery of and payment for the Bonds. Bonds delivered on transfer of or in exchange for other Bonds shall bear the same Issuance Date as the Bond or Bonds in lieu of or in exchange for which the new Bond is delivered.

"MSRB" means the Municipal Securities Rulemaking Board.

"Outstanding" means, when used with reference to any bonds, as of a particular date, all such obligations theretofore and thereupon delivered except: (a) any such obligations cancelled by or on behalf of the Authority at or before said date, (b) any such obligation defeased or no longer considered outstanding pursuant to the provisions of the resolution authorizing its issuance, or otherwise defeased as permitted by applicable law, and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the resolution authorizing the issuance of such obligation.

"Outstanding Parity Bonds" means a series of outstanding and unpaid bonds designated as Parity Bonds.

"Owner" means the person who is the registered owner of a Bond, as shown in the Register.

"Parity Bonds" means the Outstanding Parity Bonds, the Bonds, the Refunding Bonds and any Additional Bonds as the same may be from time to time outstanding.

"Paying Agent/Registrar" means the paying agent/registrar designated in the Pricing Certificate.

"Paying Agent/Registrar Agreement" means one or more Paying Agent/Registrar Agreements between the Paying Agent/Registrar and the Authority relating to the Bonds.

"Plant" means the Southeast Water Purification Plant located south of Genoa Red Bluff Road north of Ellington Field, Harris County, Texas and associated facilities, which facilities are further defined as the "Plant" in the Plant Cost Sharing Agreement.

"Plant Cost Sharing Agreement" has the meaning ascribed thereto in the Water Supply Contract.

"Pledged Revenues" means (i) the Fixed Charges Payments; and (ii) any additional revenues, income, receipts, or other resources from any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the Authority, be pledged to the payment of the Parity Bonds.

"Pricing Certificate" means a certificate or certificates to be signed by an Authorized Officer in connection with the issuance of Bonds under the Resolution.

"Purchase Contract" means the purchase contract or purchase contracts between the Authority and the Underwriter pertaining to the sale of the Bonds from time to time.

"Record Date" means the last Business Day of the month next preceding an Interest Payment Date.

"Refunding Bonds" means the bonds described in Section 9.05 of the Resolution.

"Register" means the Register specified in Section 3.06(a).

"Regulations" means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

"Representations Letter" means the Blanket Letter of Representations between the City and DTC.

"Reserve Fund" means the Reserve Fund established by Section 7.03 of the Resolution.

"Reserve Fund Participant Account" means the account within the Reserve Fund securing Parity Bonds designated by a resolution authorizing the issuance of such Parity Bonds as a Reserve Fund Participant.

"Reserve Fund Participants" means with respect to Parity Bonds, any series of Parity Bonds designated by a resolution authorizing the issuance of such Parity Bonds as "Reserve Fund Participants" and secured by a lien on the Reserve Fund Participant Account of the Reserve Fund.

"Reserve Fund Surety Bond" means any surety bond or insurance policy having a rating in one of the three highest generic rating categories by one of Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, or Fitch Ratings, Inc. (or if such entities are no longer in existence, by comparable services), issued to the Authority for the benefit of the Owners of the Parity Bonds to satisfy any part of the Reserve Fund Requirement, if any, for such series of Parity Bonds.

“Reserve Fund Requirement” means the amount specified in Section 7.11, if any, and the amount specified in a resolution authorizing Parity Bonds as the Reserve Fund Requirement or, if not so specified, $0.

“Reserved Capacity” has the meaning ascribed thereto in the Water Supply Contract.

“Resolution” means this resolution and all amendments thereof and supplements thereto.

“Revenue Fund” means the fund by that name established with respect to the Parity Bonds pursuant to Section 7.01.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“SETL Project” means the acquisition by the Authority for the benefit of the City of Reserved Capacity in the Southeast Transmission Line as more specifically described in the Water Supply Contract and the SETL Cost Sharing Agreement.

“SETL Cost Sharing Agreement” means that certain Amended and Restated Cost Sharing Agreement for the Southeast Transmission Line, countersigned by the City Controller of the City of Houston on January 15, 2020, by and between Houston, the Authority, Baybrook Municipal Utility District No. 1, the City of Friendswood, Texas, the City of Pasadena, Texas, the City of Webster, Texas, the Clear Lake City Water Authority, and Harris County Municipal Utility District No. 55, as may be amended or supplemented from time to time.

“Special Payment Date” means the Special Payment Date as prescribed in Section 3.03(b).

“Special Project Bonds” means the bonds which the Authority reserves the right to issue in Section 9.07 of this Resolution for the construction or acquisition of facilities necessary to enable the Authority to conserve, store, transport, treat and purify, distribute, sell or deliver water to Special Project Customers.

“Special Project Customer” means any customer for or to whom the Authority conserves, stores, transports, treats and purifies, distributes, sells, or delivers water by means of a Special Project Facility.

“Special Project Facilities” means the facilities which are constructed or acquired with the proceeds of Special Project Bonds.

“Special Record Date” means the Special Record Date as prescribed in Section 3.03(b).

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of principal of or interest on the Bond, as the same come due and payable and remaining unclaimed by the Owners of the Bond, for 90 days after the applicable payment or redemption date.

“Underwriter” means the underwriter named in the Purchase Contract for a series of Bonds.

“Water Supply Contract” means that certain Fourth Amended and Restated Water Supply Contract, dated as of November 18, 2021, between the City and the Authority, as may be amended or supplemented from time to time.

**Security and Source of Payment for All Bonds**

Pledge. Payment of the principal, premium, if any, and interest on the Parity Bonds shall be secured by and payable from a lien on and pledge of the Pledged Revenues, and the Pledged Revenues are further pledged to the establishment and maintenance of the funds created by the Resolution, and any funds created by any Bond Resolution authorizing the issuance of Parity Bonds. The Parity Bonds shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of the Pledged Revenues. Except with respect to the Reserve Funds Participant Account or the other separate accounts of the Reserve Fund described in this Resolution or other applicable Bond Resolution, all Parity Bonds shall be in all respects on a parity with and of equal dignity with one another.

Bonds as Special Obligations. The Bonds are special obligations of the Authority payable solely from the Pledged Revenues, and the Owner thereof shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation. Further, the Owners of the Bonds shall never have the right to demand payment from any revenues, receipts or assets of the Authority other than the Pledged Revenues.

Security Interest. The Authority represents that, Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of revenues granted by the Authority under Section 2.01 of the Resolution, and such pledge is therefore valid, effected and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of revenues granted by the Authority under Section 2.01 of the Resolution is subject to Chapter 9, Texas Business and Commerce Code, then in order to preserve for the Owners of the Bonds, the perfection of the security interests in said pledge, the Authority agrees to take such measures as it determines are reasonable and necessary under Texas law in order to preserve for the Owners of the Bonds a perfected security interest in said pledge.

**Rates and Charges**

Rates and Charges. At all times while any of the Bonds are Outstanding, the Authority will, in accordance with the Water Supply Contract, charge and collect monies from the City in amounts sufficient to:

(i) pay all debt service payments on the Bonds and all Parity Bonds as such payments come due as herein provided;

(ii) maintain any Reserve Fund Requirement in the Reserve Fund for the Bonds and, if any is established in a future resolution authorizing Additional Bonds or Refunding Bonds, for such Additional Bonds or Refunding Bonds; and

(iii) pay all City SETL Cost Sharing Agreement Charges and City SETL Operating Charges as provided in the Water Supply Contract.

**Funds and Accounts**

Funds. In the Resolution, the Authority has created the following funds and covenants that such funds shall be maintained in a Depository in accordance with the Resolution, for so long as any Bonds or Parity Bonds remain outstanding:

(a) the Revenue Fund;

(b) the Interest and Sinking Fund;

(c) the Reserve Fund; and

(d) the Project Fund.

Revenue Fund. In the Resolution, the Authority confirms the creation and establishment of the "City of League City Project Bond Revenue Fund" (the "Revenue Fund") to be maintained on the books of the Authority, and accounted for separate and apart from all other funds of the Authority so long as any of the Parity Bonds are outstanding. All Pledged Revenues (excepting investment interest and income from the Interest and Sinking Fund and Reserve Fund) shall be credited to the Revenue Fund immediately upon receipt.

Interest and Sinking Fund. For the sole purpose of paying the principal of and interest on the Parity Bonds plus amounts paid under credit agreements, if any, the fees of the Paying Agent/Registrar and other bond related charges, in the Resolution the Authority has created and established on the books of the Authority, and there shall be maintained so long as any of the Parity Bonds remain outstanding, accounted for separate and apart from all other funds of the Authority, a separate fund entitled the "City of League City Project Bond Interest and Sinking Fund" (the "Interest and Sinking Fund").

Reserve Fund. In the Resolution the Authority created and established on the books of the Authority, to be maintained so long as any Parity Bonds remain outstanding, a separate fund to be entitled the "City of League City Project Bond Reserve Fund" (the "Reserve Fund"). The Reserve Fund shall be used solely to pay the principal of and interest on any Parity Bonds to which the Reserve Fund is made applicable when and to the extent the amounts in the Interest and Sinking Fund available for such payment are insufficient for such purpose, and may be used for the purpose of finally retiring the last of any Parity Bonds to which the Reserve Fund is made applicable.

Project Fund. (a) The resolution establishes a separate fund entitled "Gulf Coast Water Authority Contract Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 Project Fund" (the "Project Fund"), which shall be established at an official depository of the Authority and kept separate and apart from other funds of the Authority.

(b) The proceeds of the Bonds, shall be deposited and held in the Project Fund or Issuance Costs Fund until used for authorized purposes. Money on deposit in the Project Fund or Issuance Cost Fund and all interest, and income derived therefrom shall be used only for the purposes set forth in Section 3.01 of the Resolution and to pay costs of issuance. Bond proceeds deposited in the Project Fund shall be timely and expeditiously used, in accordance with the schedule for the SETL Project, as may be amended from time to time.

Additional Funds and Accounts. In the Resolution, the Authority reserves the right to establish one or more additional funds or accounts for such purposes as the Authority may determine from time to time, including, but not limited to the purposes of providing for subordinate lien obligations.

**Flow of Funds**

Flow of Funds. The Authority shall make all deposits and payments from the Pledged Revenues in the Revenue Fund when and as required by this Resolution or Bond Resolutions authorizing Parity Bonds, and such deposits shall be made in the following manner and with the following irrevocable priorities, respectively:

(i) First, to the Interest and Sinking Fund, when and in the amounts required by the Resolution, and any Bond Resolution authorizing the Parity Bonds;

(ii) Second, on a pro rata basis, to each debt service reserve fund account for the Parity Bonds, which contains less than the amount to be accumulated and/or maintained therein, as provided in the Resolution or the applicable Bond Resolution authorizing the Parity Bonds;

(iii) Third, to any other fund or account required by any resolution authorizing Parity Bonds, the amounts required to be deposited therein;

(iv) Fourth, to any fund or account, or to any payee, required by any other resolution of the Board which authorizes the issuance of obligations or the creation of debt of the Authority having a lien on the Pledged Revenues subordinate to the lien and pledge created herein with respect to the Parity Bonds; and

(v) Fifth, for any lawful purpose.

**Interest and Sinking Fund**

Interest and Sinking Fund Requirements. In addition to the amounts required by the resolutions authorizing the Parity Bonds, the Authority shall transfer from the Pledged Revenues and deposit to the credit of the Interest and Sinking Fund the amounts, at the times, as follows:

(a) such amounts, deposited in approximately equal monthly installments on or before the last day of each month, commencing in the month of January of 2022, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay interest scheduled to accrue and come due on the Bond on the next succeeding Interest Payment Date and the fees and charges of Paying Agent/Registrar, credit agreements, if any; and

(b) such amounts, deposited in approximately equal monthly installments on or before the last day of each month hereafter, commencing in the month of January of 2022, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay principal scheduled to mature and come due on the Bonds on the next succeeding principal payment date.

**Reserve Fund**

Reserve Fund Requirements.

(a) In the Resolution, the Authority covenants and agrees to accumulate, and, when accumulated, to continuously maintain in the Reserve Fund an amount equal to at least the Reserve Fund Requirement for the Bonds, if any, and, if any such requirement is designated in a resolution authorizing the issuance of Additional Bonds, for such Additional Bonds. The Pricing Certificate will state whether the Bonds are Reserve Fund Participants and the Reserve Fund Requirement for the Bonds, if any.

(b) The Authority shall establish and maintain as hereinafter provided a balance in the Reserve Fund equal to the Reserve Fund Requirement for the Parity Bonds that are secured thereby as established in a Bond Resolution authorizing such Parity Bonds. The Reserve Fund Requirement will be determined upon the issuance of each series of Parity Bonds, at which time if the balance in the Reserve Fund exceeds the Reserve Fund Requirement, the amount of the excess shall be transferred to the Interest and Sinking Fund or used to refund Outstanding Parity Bonds. The Authority shall establish and maintain a balance in the Reserve Fund Participant Account of the Reserve Fund equal to the Reserve Fund Requirement for the Parity Bonds that are secured thereby. Alternatively, within the Reserve Fund, subaccounts solely for the benefit of a particular series of Parity Bonds may be established pursuant to a Bond Resolutions authorizing a particular series of Parity Bonds into which the applicable Reserve Fund Requirement for the particular series of Parity Bonds that are not Reserve Fund Participants may be deposited.

(c) The establishment of or any increase in the Reserve Fund Requirement resulting from the issuance of any Additional Bonds shall be specified in the resolution authorizing the issuance of such Additional Bonds. The Reserve Fund Requirement shall, as provided in the Bond Resolution authorizing such Additional Bonds, be satisfied by depositing to the credit of the Reserve Fund Participant Account (in the case of Additional Bonds that are Reserve Fund Participants) or such other designated accounts, as applicable, (in the case of Additional Bonds that are not Reserve Fund Participants) of the Reserve Fund (i) after making required transfers from the Revenue Fund into the Interest and Sinking Fund, transfers into the Reserve Fund from the Revenue Fund, in approximately equal monthly installments made on or before the last Business Day of each month following the month of delivery of such Additional Bonds, amounts sufficient to accumulate within sixty (60) months the Reserve Fund Requirement; (ii) proceeds of such Additional Bonds or other lawfully available funds in not less than the amount which, together with investment earnings thereon as estimated by the Authority, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Parity Bonds has been provided out of proceeds of such Additional Parity Bonds or investment earnings thereon as estimated by the Authority or from other lawfully available funds other than Net Revenues; or (iii) a Reserve Fund Surety Bond that is in an amount equal to the amount required to be funded. Any downgrade of an issuer of a Reserve Fund Surety Bond shall have no effect on the value of such instrument for the purposes of meeting the Reserve Fund Requirement and the Authority shall have no obligation to supplement or replace such Reserve Fund Surety Bond or make additional cash contributions to the Reserve Fund as a result of such downgrade. The Authority further expressly reserves the right to substitute at any time a Reserve Fund Surety Bond for any funded amounts in the Reserve Fund and to apply the funds thereby released for any lawful purpose, including without limitation any purpose for which Parity Bonds may be issued or in order to pay debt service on Parity Bonds (and with respect to funds on deposit in the Reserve Fund that are proceeds of the Parity Bonds, such released funds may only be used for any purpose for which Parity Bonds may be issued or in order to pay debt service on the Parity Bonds). The Authority also reserves the right to provide for the use of a Reserve Fund Surety Bond in relationship to a series-specific debt service reserve requirement as may be required under any Bond Resolution authorizing the issuance of Additional Parity Bonds.

(d) In any month in which any account of the Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Authority has elected to accumulate the Reserve Fund Requirement for any series of Additional Bonds as above provided), then on or before the last Business Day of such month, after making all required transfers to the Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Reserve Fund Participant Account (in the case of Parity Bonds that are Reserve Fund Participants) and such other designated accounts, as applicable, (in the case of Parity Bonds that are not Reserve Fund Participants) of the Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the Authority to pay all obligations under Reserve Fund Surety Bond allocable to the Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the Authority within a twelve (12) month period to reestablish in the Reserve Fund Participant Account or such other designated accounts within the Reserve Fund, as applicable, the Reserve Fund Requirement for the Parity Bonds secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum annual debt service scheduled to occur in any future Fiscal Year on all Parity Bonds then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 7.12 below. After such amounts have been accumulated in the Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain the Reserve Fund Requirement, no further transfers shall be required to be made into the Reserve Fund Participant Account or such other designated accounts within the Reserve Fund, and any excess amounts in such accounts shall be transferred to the Interest and Sinking Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the Reserve Fund Participant Account or such other designated accounts is reduced below the applicable Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Reserve Fund Participant Account or such other designated accounts within the Reserve Fund, as applicable, to such amount within a twelve (12) month period.

(e) The Reserve Fund Participant Account shall be used to pay the principal of and interest on the Parity Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Reserve Fund Surety Bond, unless provided otherwise in each of the Reserve Fund Surety Bonds allocable to the Reserve Fund Participant Account) and to repay amounts drawn under any Reserve Fund Surety Bond allocable to such Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the Authority's reimbursement obligations incurred in connection with such Reserve Fund Surety Bond. The Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Parity Bonds then Outstanding that are secured thereby.

(f) With respect to any Series of Parity Bonds that are not Reserve Fund Participants, any account created within the Reserve Fund for the benefit of such series of Parity Bonds shall be used to pay the principal and interest on such series of Parity Bonds at any time when there is not sufficient money available if the Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Reserve Fund Surety Bond, unless provided otherwise in each of the Reserve Fund Surety Bond allocable to such account) and to repay amounts drawn under any Reserve Fund Surety Bond allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the Authority's reimbursement obligations incurred in connection with such Reserve Fund Surety Bond. Any such account shall also be used to make the final payments for the retirement and defeasance of the series of Parity Bonds then Outstanding that are secured thereby.

(g) The Authority directs and requires the Paying Agent/Registrar for any series of bonds benefitting from a Reserve Fund Surety Bond to ascertain the necessity for claim or draw upon the applicable Reserve Fund Surety Bond, and to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Parity Bonds to which it pertains.

The Series 2021 Bonds are a Reserve Fund Participant. See "THE SERIES 2021 BONDS – Security for the Series 2021 Bonds" for information regarding the Reserve Fund Requirement for the Series 2021 Bonds.

Investments. Money on deposit in the Funds created pursuant to Article VII of the Resolution, may, at the option of the Authority, be invested as permitted by Texas law including, particularly, the Public Funds Investment Act, Texas Government Code, Chapter 2256, and the Public Funds Collateral Act, Texas Government Code, Chapter 2257; provided that all such deposits and investments shall be made in such manner that the money required to be expended from such Funds will be available at the proper time or times. Unless otherwise set forth herein, all interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bond and any Additional Bonds consistent with the respective resolutions authorizing their issuance.

Funds Secured. Money in all Funds created or confirmed by the Resolution, to the extent not invested, shall be secured in the manner prescribed by law.

Deficiencies; Excess Pledged Revenues. (a) If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Interest and Sinking Fund or the Reserve Fund, such deficiency shall be made up as soon as possible from the next available Pledged Revenues.

(b) Subject to making the required deposits to the credit of the various Funds and accounts when and as required by the Resolution, any Bond Resolution authorizing the issuance of any Additional Bonds, and any resolution authorizing the issuance of subordinate lien obligations, any surplus Pledged Revenues may be used by the Authority for any lawful purpose.

Sufficiency of Monies for Final Payment. Whenever the total amount of funds on deposit to the credit of the Interest and Sinking Fund and the Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Parity Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further payments need be made into the Interest and Sinking Fund or Reserve Fund.

**Defeasance**

The Authority reserves the right to defease, refund or discharge the Bonds in any manner now or hereafter permitted by law.

**Issuance of Additional Bonds.**

Issuance of Superior Lien Bonds Prohibited. In the Resolution, the Authority covenants that so long as any principal or interest pertaining to any Parity Bonds remains outstanding and unpaid, it will not authorize or issue additional obligations secured by a lien on or pledge of the Pledged Revenues superior to the lien ascribed to the Parity Bonds.

Additional Bonds. The Authority shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue, and deliver additional Parity Bonds and to enter into one or more credit agreements secured on parity with the Bonds (collectively, the "Additional Bonds"), in accordance with law, in any amounts, for any lawful purpose, including the refunding of the Bonds, Additional Bonds, credit agreements or other obligations. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with this Resolution, shall be payable from and secured by a lien on and pledge of the Pledged Revenues, equally and ratably on a parity in all respects with the Bonds and the Outstanding Parity Bonds.

Conditions Precedent to the Issuance of Additional Bonds. Additional Bonds shall be issued only in accordance with the Resolution and no installment, series, or issue of Additional Bonds shall be issued or delivered unless:

(a) The President of the Board and the Secretary of the Board sign a written certificate to the effect that the Authority is not in default as to any covenant, condition, or obligation in connection with any Parity Bonds, and the Bond Resolutions authorizing same, and that the Interest and Sinking Fund and the Reserve Fund, if any, contain the amounts then required to be therein.

(b) If the Additional Bonds will be a Reserve Fund Participant or the beneficiary of an account created within the Reserve Fund if not a Reserve Fund Participant, provision shall be made in the Bond Resolution authorizing the issuance of such Additional Bonds for increasing the Reserve Fund to the Required Reserve Amount as required by the Resolution with proceeds of the Additional Bonds, or other available source or combination of sources including Pledged Revenues, or both.

(c) Provision is made in the resolution authorizing the Additional Bonds then proposed to be issued for appropriate additional or larger payments to be made into the Interest and Sinking Fund in such additional amounts as are required by the payment of all principal of and interest on the Additional Bonds, as the same come due.

Refunding Bonds. The Authority reserves the right to issue Refunding Bonds to refund any Parity Bonds. Refunding Bonds so issued shall enjoy complete equality of lien with that portion of the principal amount of the Bonds that is not refunded, if any, and the Refunding Bonds shall continue to enjoy any priority of lien that may have been enjoyed by the portion of the principal amount of the Bonds refunded. If issued as Parity Bonds, Refunding Bonds may be issued in any manner now or hereafter authorized by law. The Authority reserves the right to issue subordinate lien bonds for the purpose of refunding any then Outstanding Parity Bonds.

Subordinate Lien Bonds. The Authority reserves the right to issue for any lawful purpose at any time in one or more installments, bonds, credit agreements or other obligations of any kind payable in whole or in part from the Pledged Revenues or secured by a pledge of the Pledged Revenues that may be junior and subordinate to the pledge of Pledged Revenues securing the Bonds.

Special Project Bonds. The Authority reserves the right to issue Special Project Bonds to construct, acquire, add to, expand or extend properties, works and facilities to enable the Authority to serve any new or existing customer of the Authority, and such Special Project Bonds may be payable from and secured by a first lien on and pledge of the revenues received by the Authority from the use, ownership, operation or lease of the properties, works and facilities constructed or otherwise acquired with the proceeds of Special Project Bonds or paid for by any new or existing water customers of the Authority. It is specifically provided, however, that such Special Project Bonds shall not be payable from the Pledged Revenues, even though Special Project Facilities may be physically connected to the SETL Project.

**General Covenants**

Operation of the Project. While any of the Parity Bonds are outstanding and unpaid, the Authority shall contract with the City of Houston, Texas, or otherwise provide for the continuous and efficient operation the SETL Project, and shall contract with the City of Houston, Texas, or otherwise provide for the maintenance of the SETL Project in good condition, repair, and working order.

Annual Budget. The Authority shall prepare, prior to the beginning of each Fiscal Year, an annual budget, in accordance with law, reflecting an estimate of cash receipts and disbursements for the ensuing Fiscal Year in sufficient detail to indicate the establishment of the rates and charges.

Water Supply Contract. The Authority covenants and agrees that it will comply in all material respects with the terms and conditions of the Water Supply Contract and any amendments or supplements thereto, and will, by all lawful means, seek to enforce the same and cause the parties to comply with all of their obligations thereunder. The Authority will not rescind, modify or amend the Water Supply Contract in any way that would reduce the City’s obligation to pay Pledged Revenues.

**Modifications and Amendments**

Amendments and Modifications of Resolution Requiring Consent. (a) The Owners of 51% in principal amount of the Parity Bonds then outstanding shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of any Parity Bonds, which may be deemed necessary or desirable by the Authority, provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in said resolutions or in the Parity Bonds so as to:

(i) Make any change in the maturity of the outstanding Parity Bonds;

(ii) Reduce the rate of interest borne by any of the outstanding Parity Bonds;

(iii) Reduce the amount of the principal payable on the outstanding Parity Bonds;

(iv) Modify the terms of payment of principal of or interest on the outstanding Parity Bonds, or impose any conditions with respect to such payment;

(v) Affect the rights of the owners of less than all of the Parity Bonds then outstanding;

(vi) Change the minimum percentage of the principal amount of Parity Bonds necessary for consent to such amendment.

(b) If at any time the Authority shall desire to amend a resolution under this Section, the Authority shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York one time. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each paying agent for any of the Parity Bonds, for inspection by all owners of Parity Bonds. Such publication is not required, however, if notice in writing is given to each owner of Parity Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the Authority shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all Parity Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Authority may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Authority and all the owners of then outstanding Parity Bonds and all future Additional Bonds shall thereafter be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

(e) Any consent given by the owner of a Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or giving of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Parity Bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the paying agent for such Bond and the Authority, but such revocation shall not be effective if the owners of 51% in aggregate principal amount of the then outstanding Parity Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section, the ownership of and other matters relating to the Bond shall be determined from the registration books kept by the registrar therefor.

Amendments Not Requiring Consent or Notice. The Resolution or any resolution supplemental hereto or any resolution amending the Resolution and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time by a supplemental resolution without the consent of the Owners of the Bonds, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the events constituting events of default under this Resolution, or to add to the covenants and agreements of the Authority contained in the Resolution other covenants and agreements thereafter to be observed, or to surrender any right or power herein reserved or confirmed upon the Authority;

(b) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge or charge, created or to be created by the provisions of the Resolution or to grant to or confer upon the Owners of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them; and

(c) to make such provisions for the purpose of curing any ambiguity, or of curing or correcting any defect, in any provision contained in the Resolution, or in regard to questions arising under this Resolution, as the Authority may deem necessary or desirable, and which shall not adversely affect the interests of the Owners of the Bonds.

Amendments to the Water Supply Contract. The Authority may consent to the amendment of the Water Supply Contract so long as such amendment does not reduce the City's obligation to pay Pledged Revenues.

**Defaults and Remedies**

Events of Default. Each of the following occurrences or events for the purpose of the Resolution is hereby declared to be an "Event of Default," to-wit:

(a) the failure to make payment of the principal of, redemption premium, if any, or interest on the Bonds when the same becomes due and payable; or

(b) default in the performance or observance of any other covenant, agreement or obligation of the Authority, the failure to perform which materially, adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with this Resolution, and the continuation thereof for a period of 60 days after written notice of such default is given by any Owner to the Authority.

Remedies for Default. Upon the happening of any Event of Default, then and in every case any Owner or an authorized representative thereof may proceed against the Authority for the purpose of protecting and enforcing the rights of the Owners under this Resolution, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

Remedies Not Exclusive. No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Resolution, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Resolution. The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

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## CITY OF LEAGUE CITY CONTRACT DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Series 2021 Bonds and other bond issued by the Authority for the benefit of the City payable from revenues of the City's Water and Sewer System under various contracts between the City and the Authority. Upon issuance, the Series 2021 Bonds will be the only Bonds outstanding that are payable from the Water Supply Contract. See "THE SERIES 2021 BONDS - Security for the Series 2021 Bonds" and "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT."

**Table 1 - City of League City Contract Debt Service Requirements**

| Fiscal Year Ended 9/30 | South Project Bonds (1) | Texas City Reservoir and Raw Water Conveyance System Bonds (2) | Plus: The Series 2021 Bonds | | | Total Debt Service Requirements |
|---|---|---|---|---|---|---|
| | | | Principal | Interest | Total | |
| 2022 | $ 65,022 | $ 28,493 | $ 155,000 | $ 134,518 | $ 289,518 | $ 383,032 |
| 2023 | | 28,636 | 215,000 | 200,750 | 415,750 | 444,386 |
| 2024 | | 28,643 | 225,000 | 192,150 | 417,150 | 445,793 |
| 2025 | | 28,515 | 235,000 | 183,150 | 418,150 | 446,665 |
| 2026 | | 28,486 | 245,000 | 173,750 | 418,750 | 447,236 |
| 2027 | | 28,552 | 250,000 | 163,950 | 413,950 | 442,502 |
| 2028 | | | 260,000 | 153,950 | 413,950 | 413,950 |
| 2029 | | | 270,000 | 143,550 | 413,550 | 413,550 |
| 2030 | | | 285,000 | 132,750 | 417,750 | 417,750 |
| 2031 | | | 295,000 | 121,350 | 416,350 | 416,350 |
| 2032 | | | 305,000 | 109,550 | 414,550 | 414,550 |
| 2033 | | | 320,000 | 97,350 | 417,350 | 417,350 |
| 2034 | | | 330,000 | 87,750 | 417,750 | 417,750 |
| 2035 | | | 340,000 | 77,850 | 417,850 | 417,850 |
| 2036 | | | 350,000 | 67,650 | 417,650 | 417,650 |
| 2037 | | | 360,000 | 57,150 | 417,150 | 417,150 |
| 2038 | | | 370,000 | 46,350 | 416,350 | 416,350 |
| 2039 | | | 380,000 | 35,250 | 415,250 | 415,250 |
| 2040 | | | 390,000 | 23,850 | 413,850 | 413,850 |
| 2041 | | | 405,000 | 12,150 | 417,150 | 417,150 |
| | $ 65,022 | $ 171,325 | $5,985,000 | $2,214,768 | $8,199,768 | $ 8,436,115 |

(1) Represents the City's share of the debt service on the Authority's Water System Contract Revenue Refunding Bonds (South Project), Series 2011A and Water System Contract Revenue Refunding Bonds (South Project), Series 2011B (collectively, the "South Project Bonds"). The South Project Bonds were issued in connection with the South Project, which is a special project of the Authority associated with Thomas S. Mackey Water Treatment plant and the related distribution system. The remaining portion of the debt service on the South Project Bonds is paid by the other political subdivisions participating in the South Project. The City and the other political subdivisions are legally, jointly and severally obligated on the debt service for the South Project Bonds through the funding mechanics for the debt service reserve fund.

(2) Represents the City's share of the debt service on the Authority's Contract Revenue Bond (Texas City Reservoir and Raw Water Conveyance System Project), Series 2016A (Tax-Exempt) and Contract Revenue Bond (Texas City Reservoir and Raw Water Conveyance System Project), Series 2016B (Taxable) (collectively, the "Texas City Reservoir and Raw Water Conveyance System Bonds") issued in connection with the Texas City Reservoir and Raw Water Conveyance System, which is a component of the Industrial Division. The remaining portion of the debt service on the Texas City Reservoir and Raw Water Conveyance System Bonds is paid by various political subdivisions and industrial customers that participate in the Authority's Industrial Division and Municipal Division. See "DESCRIPTION OF THE AUTHORITY."

The City does not currently have any outstanding water and sewer system revenue bonds. However, the City has certain ad valorem tax bonds outstanding that it treats as self-supporting from water and sewer system revenues. The following table describes the City's obligations that are treated as self-supporting from water and sewer system revenues.

**Table 2 - Additional City of League City Water and Sewer System Debt[(1)]**

| Fiscal Year Ended 9/30 | Principal | Interest | Total |
|---|---|---|---|
| 2022 | $ 8,721,562 | $ 4,488,184 | $ 13,209,746 |
| 2023 | 8,810,569 | 4,121,188 | 12,931,757 |
| 2024 | 8,930,033 | 3,757,354 | 12,687,387 |
| 2025 | 9,328,397 | 3,356,852 | 12,685,249 |
| 2026 | 9,160,000 | 2,918,134 | 12,078,134 |
| 2027 | 9,580,000 | 2,498,161 | 12,078,161 |
| 2028 | 9,815,000 | 2,084,740 | 11,899,740 |
| 2029 | 10,170,000 | 1,681,686 | 11,851,686 |
| 2030 | 10,560,000 | 1,264,340 | 11,824,340 |
| 2031 | 11,115,000 | 854,370 | 11,969,370 |
| 2032 | 5,535,000 | 585,015 | 6,120,015 |
| 2033 | 4,405,000 | 440,765 | 4,845,765 |
| 2034 | 4,470,000 | 310,492 | 4,780,492 |
| 2035 | 2,440,000 | 205,021 | 2,645,021 |
| 2036 | 1,460,000 | 145,161 | 1,605,161 |
| 2037 | 1,235,000 | 106,084 | 1,341,084 |
| 2038 | 765,000 | 77,481 | 842,481 |
| 2039 | 790,000 | 56,100 | 846,100 |
| 2040 | 810,000 | 34,100 | 844,100 |
| 2041 | 835,000 | 11,481 | 846,481 |
| | $ 118,935,561 | $ 28,996,709 | $ 147,932,270 |

(1) General obligation debt of the City for which repayment is provided from the City's water and sewer system. It is the City's current policy to provide these payments from the City's water and sewer system revenues. This policy is subject to change in the future.

## INVESTMENTS

The Authority invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the Authority. Both Texas law and the Authority's investment policies are subject to change.

### Legal Investments

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

interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the Authority selects from a list the governing body of the Authority or designated investment committee of the Authority adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the Authority selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the Authority's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the Authority appoints as the Authority's custodian of the banking deposits issued for the Authority's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for Authority deposits, or (ii) certificates of deposits where (a) the funds are invested by the Authority through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Authority as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the Authority, (b) the broker or the depository institution selected by the Authority arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Authority, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Authority appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Authority with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the Authority or cash held by the Authority to be pledged to the Authority, held in the Authority's name, and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Authority, held in the Authority's name and deposited at the time the investment is made with the Authority or a third party designated by the Authority; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the Authority with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United

States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the Authority may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Authority, held in the Authority's name and deposited at the time the investment is made with the Authority or a third party designated by the Authority; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

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

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

**Investment Policies**

Under Texas law, the Authority is required to invest its funds under written and duly adopted investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for Authority funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted average maturity allowed for pooled fund groups; that sets forth methods to monitor the market price of investments acquired with public funds; and that requires all transactions to be settled on a delivery vs. payment basis. Each Authority fund or group of funds must be invested consistently with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' objective. Each Investment Strategy Statement must describe its objectives for the particular fund using the following priorities in order of importance: (i) suitability of investment type to the Authority's need, (ii) preservation and safety of principal, (iii) liquidity, (iv) marketability of each investment, (v) diversification of the portfolio, and (vi) yield.

Under the Investment Act, Authority investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Authority shall submit an investment report detailing: (i) the investment position of the Authority, (ii) that all investment officers, (iii) the beginning market value, any additions and changes to market value, the ending value and fully accrued interest for the reporting period of each pooled fund group, (iv) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (v) the maturity date of each separately invested asset, (vi) the account or fund or pooled fund group for which each individual investment was acquired, and (vii) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) the Investment Act. No person may invest Authority funds without express written authority from the Board of Directors.

## Additional Provisions

Under the Investment Act, the Authority is additionally required to: (i) review and either amend or confirm its adopted policies and strategies annually; (ii) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the Authority to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (iii) require the registered principal of firms seeking to sell securities to the Authority to: (a) receive and review the Authority's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities with the Authority, and (c) deliver a written statement attesting to these requirements; (iv) perform an annual audit of the management controls on investments and adherence to the Authority's investment policy; (v) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers that complies with the Investment Act; (vi) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (vii) restrict the investment in mutual funds in the aggregate to no more than 80% of the Authority's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further prohibit the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Authority's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (viii) monitor the compliance of local government investment pools with the disclosure, rating, net asset value, yield calculation, advisory board and other Investment Act requirements.

**Table 3 - Current Investments**

As of September 30, 2021, the City's investable funds were invested in the following categories:

| Description | Percent of Total | Book Value | Market Value |
|---|---|---|---|
| Cash | 2.38% | $5,766,441 | $5,766,441 |
| TexPool | 20.83% | 50,448,540 | 50,448,540 |
| TexSTAR | 9.29% | 22,499,823 | 22,499,823 |
| LoneStar | 1.31% | 3,177,446 | 3,177,446 |
| Texas Class | 16.41% | 39,746,350 | 39,746,350 |
| Certificates of Deposit | 31.11% | 75,345,941 | 75,345,941 |
| Money Market | 6.33% | 15,333,673 | 15,333,673 |
| Portfolio Investments | 12.34% | 29,880,589 | 29,763,073 |
| | 100.00% | $242,198,803 | $242,081,287 |

# TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

## Tax Exemption

In the opinion of Bracewell LLP, Houston, Texas ("Bond Counsel") under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2021 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a tax requirement that excess arbitrage earned on the investment of bond 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 Authority has covenanted in the Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the excludability of interest on the Series 2021 Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the Authority, the Authority's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the Authority, the Authority's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series 2021 Bonds could become includable in gross income from the Date of Delivery of the Series 2021 Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Series 2021 Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2021 Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Series 2021 Bonds from gross income for federal income tax purposes.

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 thereof. 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 results 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 as to whether or not the Service will commence an audit of the Series 2021 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Authority as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2021 Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

*Additional Federal Income Tax Considerations*

Collateral Tax Consequences. Prospective purchasers of the Series 2021 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, low and middle income taxpayers otherwise qualifying for the health insurance premium credit, and individuals otherwise qualifying for the earned income tax 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 Series 2021 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2021 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2021 Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium. The issue price of all of the Series 2021 Bonds may exceed the stated redemption price payable at maturity of such Series 2021 Bonds. Such Series 2021 Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

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

Tax Legislative Changes. Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Series 2021 Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

## OTHER INFORMATION

### Ratings

The Series 2021 Bonds and the presently outstanding parity debt of the Authority are rated "Aa2" by Moody's and "AA+" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Series 2021 Bonds.

There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Neither the Underwriter nor the Authority has undertaken any responsibility to bring to the attention of the holders of the Series 2021 Bonds any proposed revision or withdrawal of the ratings of the Series 2021 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Series 2021 Bonds.

### Litigation

It is the opinion of the Authority's staff that there is no pending litigation contesting the issuance of the Series 2021 Bonds or with respect to the Authority that would have a material adverse financial impact upon the Authority or the Project.

### Registration and Qualification of Bonds for Sale

The sale of the Series 2021 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2021 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2021 Bonds been qualified under the securities acts of any jurisdiction. The Authority assumes no responsibility for qualification of the Series 2021 Bonds under the securities laws of any jurisdiction in which the Series 2021 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### Legal Investments and Eligibility to Secure Public Funds on Texas

Under Texas law, the Series 2021 Bonds are legal and authorized investments for insurance companies, fiduciaries or trustees, and for the sinking fund of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Series 2021 Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Series 2021 Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The Authority has not reviewed the laws in other states to determine whether the Series 2021 Bonds are legal investments for various institutions in those states.

The Authority has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Series 2021 Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Series 2021 Bonds. The Authority has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Series 2021 Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Series 2021 Bonds.

**Legal Matters**

The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Series 2021 Bonds. The transcript will include the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bonds and to the effect that the Series 2021 Bonds are valid and legally binding special obligations of the Authority, and based upon examination of such transcript of certified proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2021 Bonds will be excludable from gross income of the holders for federal income tax purposes under existing law and the Series 2021 Bonds are not private activity bonds under the Internal Revenue Code of 1986, subject to the matters described under "Tax Matters" herein, including alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Series 2021 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Series 2021 Bonds will also be furnished.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under "THE SERIES 2021 BONDS," (except for the last sentence under the subcaption "Purpose" as to which no opinion is expressed), "SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACT," "THE RESOLUTION" "CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY" (except for the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION OF THE CITY" (except for the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed), to determine whether such information is an accurate and fair description of the provisions of the Resolution and the Water Supply Contract and the continuing disclosure agreement between the City and the Authority, additionally, such firm has reviewed the information appearing under the captions and subcaptions "TAX MATTERS," "OTHER INFORMATION - Legal Matters," "OTHER INFORMATION – Registration and Qualification of Bonds For Sale" and "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas" solely to determine if such information fairly and accurately describe the laws and legal issues addressed therein. The various legal opinions to be delivered concurrently with the delivery of the Series 2021 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.

**Financial Advisor**

Post Oak Municipal Advisors LLC is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2021 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2021 Bonds is contingent upon the issuance and delivery of the Series 2021 Bonds. Post Oak Municipal Advisors LLC, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2021 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

**Authenticity of Financial Data and Other Information**

The financial data and other information contained herein have been obtained from the Authority's and the City's records, audited financial statements and other sources which are believed to be reliable. The data and information shown in Appendix B were obtained from the records, audited financial statements, and other sources which are believed to be reliable, but neither the Authority nor the City make any representation as to their accuracy or completeness. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

**Underwriting**

The Underwriter has agreed, subject to certain conditions, to purchase the Series 2021 Bonds from the Authority at an Underwriter's discount of $51,358.41 from the initial offering price to the public. The Underwriter will be obligated to purchase all of such Series 2021 Bonds if any of such Series 2021 Bonds are purchased. The Series 2021 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Series 2021 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2021 Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

**Authorization of Official Statement**

The Resolution authorizing the issuance of the Series 2021 Bonds authorized the General Manager or Assistant General Manager of the Authority to approve any Official Statement and any supplement thereto relating to the Bonds. The bond purchase agreement to be executed by the General Manager or Assistant General Manager of the Authority and the Underwriter approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Series 2021 Bonds by the Underwriter.

**Forward-Looking Statements**

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

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

## CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY

In the Resolution, the Authority has made the following agreement for the benefit of the holders and beneficial owners of the Series 2021 Bonds. The Authority is required to observe the agreement for so long as the Series 2021 Bonds are outstanding. Under the agreement, the Authority is obligated to provide certain updated financial information and operating data annually with respect to the Authority, and timely notice of specified events, to the Municipal Securities Rule Making Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

### Annual Reports

The Authority shall provide annually to the MSRB, (i) within six (6) months after the end of each fiscal year of the Authority ending in or after 2021, financial information and operating data with respect to the Authority of the general type included in the Official Statement, being the information included in Table 1 and Appendix C, and (ii) if not provided as part of such financial information and operating data, audited financial statements of the Authority, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the notes to the financial statements for the most recently concluded fiscal year, and (ii) audited, if the Authority commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Authority shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document, including an official statement or other offering document, if it is available to the public on the MSRB's internet website or has been filed with the SEC. The financial information or operating data shall be provided in an electronic format as prescribed by the MSRB and shall be linked to the CUSIP numbers for the Bonds.

The Authority's current fiscal year end is August 31. Accordingly, it must provide updated information by the end of February in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, the Authority will notify the MSRB of the change prior to the next date by which the Authority otherwise would be required to provide financial information and operating data pursuant to this Section.

### Material Event Notices

The Authority shall notify the MSRB, in a timely manner, but not later than 10 business days, after the occurrence of the event of any of the following events with respect to the Series 2021 Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves;

(iv) Unscheduled draws on credit enhancements;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) 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 events affecting the tax status of the Bonds;

(vii) Modifications to rights of bondholders;

(viii) Bond calls and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the Bonds;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the Authority. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

(xiii) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, 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;

(xiv) Appointment of a successor or additional trustee or the change of the name of a Trustee;

(xv) Incurrence of a Financial Obligation of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Authority; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Authority.

In clauses (xv) and (xvi) above the term "Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The Authority shall notify the MSRB, in an electronic format, as prescribed by the MSRB, in a timely manner, of any failure by the Authority o provide their financial information or operating data in accordance with its continuing disclosure undertaking by the time required.

**Limitations and Amendments**

The Authority has agreed to provide updated information regarding the Authority and to provide notices of material events only as described above. The Authority 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 Authority 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 Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2021 Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement.

The provisions of this continuing disclosure agreement may be amended by the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, but only if (1) the provisions the continuing disclosure agreement, as so amended, would have permitted an underwriter to purchase or sell Series 2021 Bonds in the primary offering of the Series 2021 Bonds 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 (2) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Resolution that authorize such an amendment) of the outstanding Series 2021 Bonds consent to such amendment or (B) a person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Series 2021 Bonds. The Authority may also repeal or amend the provisions of this continuing disclosure agreement if the Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Authority also may amend the provisions of this continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Series 2021 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Authority so amends the provisions of this continuing disclosure agreement, the Authority shall include with any amended financial information or operating data next provided in accordance with this continuing disclosure agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

### Compliance With Prior Undertakings

The Authority has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 for the last five years.

## CONTINUING DISCLOSURE OF INFORMATION OF THE CITY

The Authority and the City have entered into a continuing disclosure agreement, as amended from time to time (the "Disclosure Agreement") pursuant to which the City has made the following agreement for the benefit of the holders and beneficial owners of the Series 2021 Bonds. The City is required to observe the agreement for so long as the Series 2021 Bonds are outstanding. Under the Disclosure Agreement, the City is obligated to provide certain updated financial information and operating data annually with respect to the City, and timely notice of specified material events, to the MSRB. Information will be available free of charge via EMMA system at www.emma.msrb.org.

### Annual Reports

The City shall provide annually to the MSRB (with a copy to the Authority) within six (6) months after the end of each fiscal year of the City ending in or after 2021, financial information and operating data with respect to the City of the general type included in the Official Statement in Tables 2-3 and in Appendix A and Appendix B including financial statements of the City if audited financial statements of the City are then available. If not provided as part of such financial information and operating data, audited financial statements of the City shall be provided, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded fiscal year, or such other accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document, including an official statement or other offering document, if it is available to the public on the MSRB's internet website or has been filed with the SEC. The financial information or operating data shall be provided in an electronic format as prescribed by the MSRB and shall be linked to the CUSIP numbers for the Bonds.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, the City will notify the MSRB of the change prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

**Material Event Notices**

The City shall notify the MSRB, in a timely manner, but not later than 10 business days, after the occurrence of the event of any of the following events with respect to the Series 2021 Bonds:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves;

(iv) Unscheduled draws on credit enhancements;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) 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 events affecting the tax status of the Bonds;

(vii) Modifications to rights of bondholders;

(viii) Bond calls and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the Bonds;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the City. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;

(xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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;

(xiv) Appointment of a successor or additional trustee or the change of the name of a Trustee;

(xv) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City.

In clauses (xv) and (xvi) above the term "Financial Obligation" means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The City shall notify the MSRB, in an electronic format, as prescribed by the MSRB, in a timely manner, of any failure by the City to provide their financial information or operating data in accordance with its Disclosure Agreement by the time required.

**Limitations and Amendments**

The City has agreed to provide updated information regarding the City and to provide notices of material events only as described above. The City 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 City 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 City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2021 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The provisions of this Disclosure Agreement may be amended by the City and the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City or the Authority, but only if (1) the provisions of the Disclosure Agreement, as so amended, would have permitted an underwriter to purchase or sell Series 2021 Bonds in the primary offering of the Series 2021 Bonds 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 (2) either (A) the owners of a majority in aggregate principal amount of the outstanding Series 2021 Bonds consent to such amendment or (B) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the owners and beneficial owners of the Series 2021 Bonds. The City and the Authority may also repeal or amend the provisions of the Disclosure Agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City and the Authority also may amend the provisions of the Disclosure Agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Series 2021 Bonds in the primary offering of the Series 2021 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City and the Authority so amend the provisions of the Disclosure Agreement, the City shall include with any amended financial information or operating data next provided in accordance with the Disclosure Agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

**Compliance With Prior Undertakings**

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 for the last five years.

## BONDOWNERS' REMEDIES

No lien has been created on any property of the Authority to secure payment of principal or interest on the Series 2021 Bonds, and the Owners of the Series 2021 Bonds have no right in the event of default, to attach or dispose of the projects or any property of the City or the Authority (other than certain funds as specified in the Resolution). No provision has been made for the appointment of a trustee to protect the rights of Bondowners, to provide for the acceleration of maturity, or for the operation of the Authority's system by an independent third party in the event of default. Accordingly, the only practical remedy in the event of default may be a mandamus proceeding to compel the Authority to perform its obligations under the Resolution. Such remedy, however, may be impracticable and difficult to enforce, and might need to be invoked periodically because of the unavailability of acceleration. The enforcement of a claim for payment of principal or interest may also be subject to the applicable provisions of the federal bankruptcy laws, other statutes, if any, hereinafter enacted, which might impose constraints on such enforcement, and general principles of equity which permit the exercise of judicial discretion. See “THE RESOLUTION – Default and Remedies.”

# APPENDIX A

## GENERAL INFORMATION REGARDING CITY

## GENERAL INFORMATION REGARDING THE CITY

### The City

The City of League City is located in the north central part of Galveston County and part of Harris County five miles south of the city limits of Houston, Texas. The City was incorporated on December 9, 1961 and adopted its Home Rule Charter on March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities. The City is located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and approximately 10 miles from the petrochemical refineries located in Texas City in Galveston County. The National Aeronautics and Space Administration's ("NASA") Johnson Space Center is located just north of the City in Harris County. In addition, residents find employment in the numerous retail and service establishments located in the City and surrounding area. The City's 2021 estimated population is 110,467.

### Payment History

The City has never defaulted in the payment of its general obligation tax debt.

### Waterworks System

The City purchases approximately 90% of its water from the Authority, which supplies, by contract, an average of 19.5 million gallons of water per day from the City of Houston's Southeast Water Purification Plant and an additional 2.0 million gallons of water per day from the Gulf Coast Water Authority's Thomas H. Mackey Water Treatment Plant. The remainder of the City's water is obtained from 8 wells located in the City. The City's water system contains approximately 506 miles of water lines ranging in size from 2" to 42" and presently services approximately 36,240 connections. The City operates the water system. For Fiscal Year 2021, waterworks system operating revenues are estimated to increase by approximately $3 million or 8% from the prior year, and operating expenses are estimated to increase by approximately $1.7 million or 8% from the prior year.

### Historical Water Consumption

| Fiscal Year Ended 9/30 | Estimated City Population[1] | Number of Customers | Water Usage (MG) Average Day Usage | Peak Day Usage | Peak Month Usage | Total Usage | Total Water and Sewer Sales |
|---|---|---|---|---|---|---|---|
| 2016 | 100,053 | 32,459 | 10.491 | 19.445 | 459.365 | 3,829.097 | $ 33,793,709 |
| 2017 | 102,635 | 33,310 | 11.236 | 18.342 | 408.585 | 4,104.479 | 35,805,577 |
| 2018 | 104,857 | 34,102 | 12.034 | 19.586 | 486.225 | 4,392.590 | 37,257,244 |
| 2019 | 106,803 | 34,617 | 11.118 | 17.471 | 423.743 | 4,058.064 | 34,575,788 |
| 2020 | 109,087 | 35,611 | 11.664 | 18.910 | 468.416 | 4,257.519 | 36,990,951 |
| 2021 [2] | 110,467 | 35,947 | 11.829 | 24.625 | 476.345 | 4,317.345 | 39,692,382 |

[1] Source: The City's Comprehensive Annual Financial Reports for fiscal years 2016-2020, and the City's records for fiscal year 2021.

[1] Fiscal year 2021 results are estimated.

**Enterprise Funds Statement of Net Position**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| **Operating Revenues:** | | | | | |
| Charges for Services | $ 36,990,951 | $ 34,575,788 | $ 37,257,244 | $ 35,805,577 | $ 33,793,709 |
| Miscellaneous | 5,147,900 | 280,454 | 107,384 | 111,594 | 122,093 |
| Total Operating Revenues | 42,138,851 | 34,856,242 | 37,364,628 | 35,917,171 | 33,915,802 |
| **Operating Expenses:** | | | | | |
| Personnel | 6,266,064 | 5,297,535 | 5,822,111 | 5,632,773 | 5,777,686 |
| Contractual Services | 7,039,647 | 5,648,542 | 6,266,400 | 5,761,003 | 5,103,601 |
| Utilities | 1,310,371 | 1,283,555 | 1,334,009 | 1,458,324 | 1,426,510 |
| Repairs and Maintenance | 1,698,178 | 1,532,563 | 1,288,233 | 1,347,449 | 1,358,777 |
| Other Supplies and Expenses | 759,443 | 945,265 | 774,692 | 708,442 | 646,465 |
| Depreciation | 7,889,386 | 7,648,035 | 6,996,516 | 6,266,252 | 6,184,029 |
| Total Operating Expenses | 24,963,089 | 22,355,495 | 22,481,961 | 21,174,243 | 20,497,068 |
| Operating Income (Loss) | 17,175,762 | 12,500,747 | 14,882,667 | 14,742,928 | 13,418,734 |
| **Non-Operating Revenues (Expenses):** | | | | | |
| Investment Earnings | 876,314 | 1,753,961 | 1,017,809 | 437,569 | 239,106 |
| Interest Expense | (4,290,230) | (4,703,752) | (5,008,224) | (5,211,785) | (7,667,891) |
| Intergovernmental | 12,395 | - | - | - | - |
| Gain (Loss) on Disposal of Capital Assets | 15,725 | 1,819 | 5,689 | - | 5,984 |
| Total Non-Operating Revenue (Expenses) | (3,385,796) | (2,947,972) | (3,984,726) | (4,774,216) | (7,422,801) |
| Income (Loss) Before Transfers | 13,789,966 | 9,552,775 | 10,897,941 | 9,968,712 | 5,995,933 |
| Capital Contributions from Developers | 4,141,165 | 6,859,961 | 9,999,551 | 12,257,482 | 11,054,999 |
| Transfers In (Out) | (4,511,513) | (3,312,000) | (3,165,089) | (2,553,175) | (2,831,157) |
| Change in Net Position | 13,419,618 | 13,100,736 | 17,732,403 | 19,673,019 | 14,219,775 |
| Net Position - Beginning (October 1) | 262,885,117 | 249,784,381 | 232,892,934 | 213,219,915 | 199,000,140 [1] |
| Prior Period Adjustment | - | - | (840,956) | - | - |
| **Net Position - Ending (September 30)** | $ 276,304,735 | $ 262,885,117 | $ 249,784,381 | $ 232,892,934 | $ 213,219,915 |

[1] Restated.

**Comparative Statement of Revenues and Expenses; Customer Count**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| **Revenues:** | | | | | |
| Charges for Services | $ 36,990,951 | $ 34,575,788 | $ 37,257,244 | $ 35,805,577 | $ 28,624,729 |
| Interest Earned | 876,314 | 1,753,961 | 1,017,809 | 437,569 | 239,106 |
| Gain on Disposal of Capital Assets | 15,725 | 1,819 | 5,689 | - | 5,984 |
| Total Revenues | 37,882,990 | 36,331,568 | 38,280,742 | 36,243,146 | 28,869,819 |
| **Operating Expenses:** | | | | | |
| Personnel | 6,266,064 | 5,297,535 | 5,822,111 | 5,632,773 | 5,489,219 |
| Contractual Services | 7,039,647 | 5,648,542 | 6,266,400 | 5,761,003 | 5,103,601 |
| Utilities | 1,310,371 | 1,283,555 | 1,334,009 | 1,458,324 | 1,426,510 |
| Repairs and Maintenance | 1,698,178 | 1,532,563 | 1,288,233 | 1,347,449 | 1,358,777 |
| Other Supplies and Expenses | 759,443 | 945,265 | 774,692 | 708,442 | 646,465 |
| Gulf Coast Water Authority Debt Service [1] | 336,119 | 334,627 | 337,299 | 340,998 | 306,468 |
| | 17,409,822 | 15,042,087 | 15,822,744 | 15,248,989 | 14,331,040 |
| **Net Revenue From Operations** | $ 20,473,168 | $ 21,289,481 | $ 22,457,998 | $ 20,994,157 | $ 14,538,779 |
| **System Connections** | 35,611 | 34,617 | 34,102 | 33,310 | 32,459 |

[1] Represents payments on Contract Revenue Bonds issued by the Authority that are treated as an operating expense of the System.

**Monthly Water Rates (effective April 2021):**

| Base Rate: | | Volume Charge: | | |
|---|---|---|---|---|
| 3/4 inch meter | $7.49 | 1 - 3,000 gallons | $2.06 | per 1,000 gallons |
| 1 inch meter | $7.49 | 3,001 - 10,000 gallons | $5.78 | per 1,000 gallons |
| 1 1/2 inch meter | $9.27 | 10,001 - 25,000 gallons | $7.35 | per 1,000 gallons |
| 2 inch meter | $11.33 | 25,001 gallons and above | $8.93 | per 1,000 gallons |

**Monthly Wastewater Rates (effective April 2021):**

| Base Rate: | | Volume Charge: | | |
|---|---|---|---|---|
| 3/4 inch meter and above | $14.44 | 0 - 3,000 gallons | $2.30 | per 1,000 gallons |
| | | 3,001 - 10,000 gallons | $4.81 | per 1,000 gallons |
| | | (capped at 10,000 gallons for residential accounts) | | |

## Debt Service Coverage

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Gross Revenues[1] | $ 43,030,890 | $ 36,612,022 | $ 38,388,126 | $ 36,354,740 | $ 34,160,892 |
| Operating Expenses[2] | (24,963,089) | (22,355,495) | (22,481,961) | (21,174,243) | (20,497,068) |
| Net Revenues Available for Debt Service | $ 18,067,801 | $ 14,256,527 | $ 15,906,165 | $ 15,180,497 | $ 13,663,824 |
| Debt Service Requirements:[3] | | | | | |
| Principal | $ 319,070 | $ 620,000 | $ 2,155,000 | $ 2,125,000 | $ 3,715,000 |
| Interest | 16,277 | 361,244 | 412,925 | 492,100 | 598,413 |
| Total | $ 335,347 | $ 981,244 | $ 2,567,925 | $ 2,617,100 | $ 4,313,413 |
| Coverage of Debt Service Requirements | 53.88x | 14.53x | 6.19x | 5.80x | 3.17x |

Source: The City and the City's Comprehensive Annual Financial Reports.

(1) Gross revenues, as defined in the revenue bond ordinances, includes operating and non-operating revenue and excludes capital contributions, grant revenues, and capital recovery fees.

(2) Total operating expenses, as defined in the revenue bond ordinances, does not include amortization, bond interest, and fiscal charges.

(3) Debt service requirements represent the expected debt service payments for the succeeding fiscal year.

## Ten Largest Water Customers (Based on Gallons Consumed)

| Customer | Type of Industry | Estimated Fiscal Year 2021 Water Usage In 1,000 Gallons | Estimated % of Total Water Usage |
|---|---|---|---|
| Fairways at South Shore Harbor | Apartments | 141,915 | 3.29% |
| South Shore Golf Course | Golf Course | 48,234 | 1.12% |
| Victory North | Apartments | 15,851 | 0.37% |
| Cortland League City | Apartments | 14,933 | 0.35% |
| Century South Shore | Apartments | 14,770 | 0.34% |
| Landmark at Emerson Park | Apartments | 14,262 | 0.33% |
| Clear Creek ISD | School | 13,697 | 0.32% |
| Harbor Walk Apartments | Apartments | 13,549 | 0.31% |
| Signature Point Apartments | Apartments | 13,426 | 0.31% |
| UTMB | Hospital | 13,204 | 0.31% |
| | | 303,841 | 7.04% |

# APPENDIX B

## EXCERPTS FROM THE CITY OF LEAGUE CITY, TEXAS ANNUAL FINANCIAL REPORT

## *INDEPENDENT AUDITORS' REPORT*

To the Honorable Mayor and
City Council Members of the
City of League City, Texas:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of League City, Texas (the "City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedules of changes in net pension and total other postemployment benefits liability and related ratios, and the schedule of contributions, identified as Required Supplementary Information on the table of contents, 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 City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
*Certified Public Accountants*
Houston, Texas
May 7, 2021

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# *MANAGEMENT'S DISCUSSION AND ANALYSIS*

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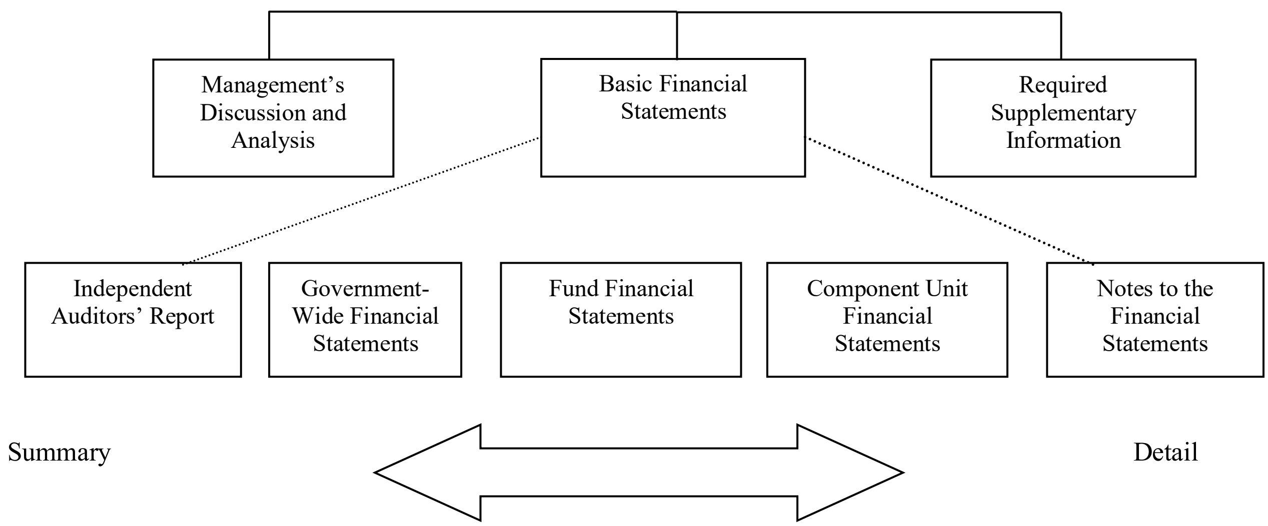
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of League City, Texas (the "City") for the year ending September 30, 2020. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

## THE STRUCTURE OF OUR ANNUAL REPORT

**Components of the Financial Section**




The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

### Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, and using the full accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – include the City's tax-supported services: police and fire protection (public safety), streets and, drainage (public works), community services, general administrative services (general government), and interest payments on the City's tax-supported debt. Property tax, sales tax, franchise fees, municipal court fines, and permit fees fund most of these activities.

2. *Business-Type Activities* – include the City's water and wastewater services, as well as interest payments on debt issued for water and wastewater improvements. Charges for services cover all or most of the cost of these activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate industrial development corporation and a legally separate volunteer fire department for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The tax increment reinvestment zones and public improvement districts, although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as integral parts of the primary government.

The government-wide financial statements can be found after the MD&A.

## FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The City uses two fund types – governmental and proprietary.

### Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 51 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and certain select special revenue funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

**Proprietary Funds**

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its motor pool services, employee insurance, and capital replacement program. These internal service funds have been included within governmental activities in the government-wide financial statements.

**Notes to Financial Statements**

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

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment benefits (OPEB) liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedule of changes in total OPEB liability and related ratios for the City's retiree medical program. RSI can be found after the basic financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows by $631,417,085 as of September 30, 2020 for the primary government. This compares with $585,321,874 from the prior fiscal year. The largest portion of the City's net position, 84 percent, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Current and other assets | $ 151,671,004 | $ 106,650,536 | $ 72,130,672 | $ 84,977,835 | $ 223,801,676 | $ 191,628,371 |
| Capital assets, net | 398,412,802 | 366,637,666 | 339,997,724 | 320,229,494 | 738,410,526 | 686,867,160 |
| **Total Assets** | 550,083,806 | 473,288,202 | 412,128,396 | 405,207,329 | 962,212,202 | 878,495,531 |
| Deferred charge on refunding | 1,170,865 | 1,233,460 | 1,213,112 | 1,324,561 | 2,383,977 | 2,558,021 |
| Deferred outflows - pensions | 2,279,556 | 9,609,464 | 2,351,832 | 1,209,724 | 4,631,388 | 10,819,188 |
| Deferred outflows - OPEB | 848,091 | 512,923 | 125,353 | 69,944 | 973,444 | 582,867 |
| **Total Deferred Outflows of Resources** | 4,298,512 | 11,355,847 | 3,690,297 | 2,604,229 | 7,988,809 | 13,960,076 |
| Long-term liabilities | 181,639,087 | 149,604,875 | 128,715,911 | 138,652,385 | 310,354,998 | 288,257,260 |
| Other liabilities | 12,561,331 | 10,392,943 | 7,630,555 | 5,563,619 | 20,191,886 | 15,956,562 |
| **Total Liabilities** | 194,200,418 | 159,997,818 | 136,346,466 | 144,216,004 | 330,546,884 | 304,213,822 |
| Deferred gain on refunding | 125,357 | 148,087 | 377,109 | 429,248 | 502,466 | 577,335 |
| Deferred inflows - pensions | 3,886,261 | 1,695,495 | 2,636,415 | 231,295 | 6,522,676 | 1,926,790 |
| Deferred inflows - OPEB | 1,057,932 | 365,892 | 153,968 | 49,894 | 1,211,900 | 415,786 |
| **Total Deferred Inflows of Resources** | 5,069,550 | 2,209,474 | 3,167,492 | 710,437 | 8,237,042 | 2,919,911 |
| **Net Position:** | | | | | | |
| Net investment in capital assets | 301,796,928 | 274,249,826 | 226,052,129 | 204,936,483 | 527,849,057 | 479,186,309 |
| Restricted | 31,064,501 | 25,402,605 | 4,845,508 | 3,502,807 | 35,910,009 | 28,905,412 |
| Unrestricted | 22,250,921 | 22,784,326 | 45,407,098 | 54,445,827 | 67,658,019 | 77,230,153 |
| **Total Net Position** | $ 355,112,350 | $ 322,436,757 | $ 276,304,735 | $ 262,885,117 | $ 631,417,085 | $ 585,321,874 |

A portion of the primary government's net position, $35,910,009 or 6 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $67,658,019 or 10 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by $46,095,211 during the current fiscal year. This included an increase to net position of $32,675,593 in governmental activities and an increase in business-type net position of $13,419,618. The City saw an increase in current and other assets of $32,173,305 as result of an increase in cash for governmental activities primarily related to the issuance of series 2019 and series 2020 general obligation bonds. Deferred outflows of resources decreased $5,971,267 while deferred inflows of resources increased $5,317,131 from the prior year mainly due to the net difference between projected and actual investment earnings on pension plan assets. Total liabilities increased by $26,333,062 with most of the increase in long-term liabilities related to the issuances of new debt.

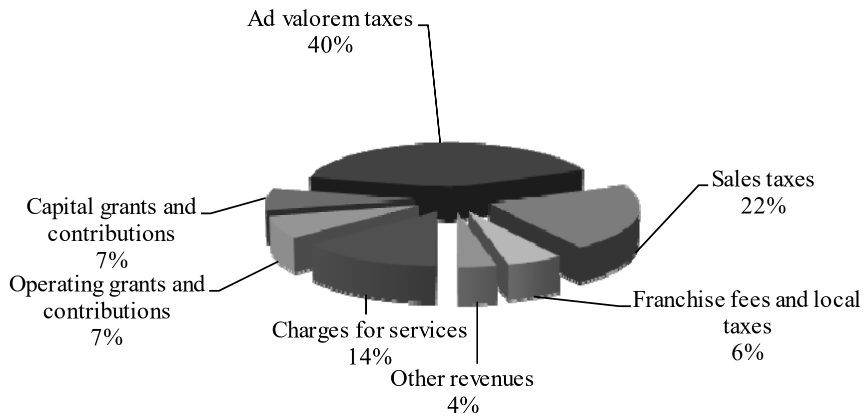
**Statement of Activities**

The following table provides a summary of the City's changes in net position:

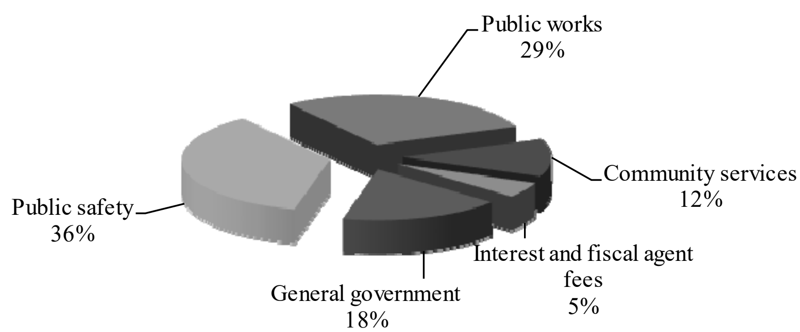
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 16,538,413 | $ 16,543,765 | $ 42,138,851 | $ 39,029,591 | $ 58,677,264 | $ 55,573,356 |
| Operating grants and contributions | 8,615,070 | 2,967,240 | 12,395 | - | 8,627,465 | 2,967,240 |
| Capital grants and contributions | 8,261,934 | 8,037,406 | 4,141,165 | 2,686,612 | 12,403,099 | 10,724,018 |
| General revenues: | | | | | | |
| Ad valorem taxes | 47,132,177 | 44,999,295 | - | - | 47,132,177 | 44,999,295 |
| Sales taxes | 25,146,874 | 19,601,376 | - | - | 25,146,874 | 19,601,376 |
| Franchise fees and local taxes | 6,470,968 | 7,006,665 | - | - | 6,470,968 | 7,006,665 |
| Investment earnings | 1,266,888 | 2,433,285 | 876,314 | 1,753,961 | 2,143,202 | 4,187,246 |
| Other revenues | 4,450,304 | 4,502,642 | - | - | 4,450,304 | 4,502,642 |
| **Total Revenues** | 117,882,628 | 106,091,674 | 47,168,725 | 43,470,164 | 165,051,353 | 149,561,838 |
| **Expenses** | | | | | | |
| General government | 15,884,893 | 15,975,808 | - | - | 15,884,893 | 15,975,808 |
| Public safety | 32,599,855 | 31,783,422 | - | - | 32,599,855 | 31,783,422 |
| Public works | 26,005,043 | 29,096,542 | - | - | 26,005,043 | 29,096,542 |
| Community services | 10,802,477 | 10,600,334 | - | - | 10,802,477 | 10,600,334 |
| Interest and fiscal agent fees | 4,426,280 | 3,746,383 | - | - | 4,426,280 | 3,746,383 |
| Water and sewer | - | - | 29,253,319 | 27,059,247 | 29,253,319 | 27,059,247 |
| **Total Expenses** | 89,718,548 | 91,202,489 | 29,253,319 | 27,059,247 | 118,971,867 | 118,261,736 |
| **Increase in Net Position Before Transfers and Gain** | 28,164,080 | 14,889,185 | 17,915,406 | 16,410,917 | 46,079,486 | 31,300,102 |
| Transfers in/(out) | 4,511,513 | 3,312,000 | (4,511,513) | (3,312,000) | - | - |
| Gain on sale of capital assets | - | 103,448 | 15,725 | 1,819 | 15,725 | 105,267 |
| **Change in Net Position** | 32,675,593 | 18,304,633 | 13,419,618 | 13,100,736 | 46,095,211 | 31,405,369 |
| Beginning net position | 322,436,757 | 304,132,124 | 262,885,117 | 249,784,381 | 585,321,874 | 553,916,505 |
| **Ending Net Position** | $ 355,112,350 | $ 322,436,757 | $ 276,304,735 | $ 262,885,117 | $ 631,417,085 | $ 585,321,874 |

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

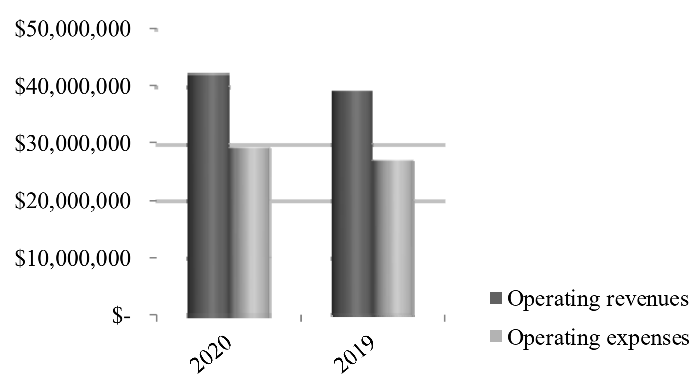
### Governmental Activities - Revenues




### Governmental Activities - Expenses




### Business-Type Activities - Revenues and Expenses



**Governmental Activities:**

For the year ended September 30, 2020, revenues from governmental activities totaled \$117,882,628, compared with \$106,091,674 in the prior year. This net increase of \$11,790,954 can be largely seen in the change in operating grants and contributions, ad valorem taxes, and sales tax. Operating grants and contributions primarily increased due to a new grant received in the current year for Coronavirus-related expenses. Ad valorem taxes increased mainly due to an increase in assessed values of properties and sales tax revenue increase due to an increase in the local sales tax rate.

Governmental expenses decreased by \$1,483,941 or two percent. This decrease can be attributed to a number of final payments for developer reimbursement payments for capital additions to the City's infrastructure made in the prior year and decreases in pension and OPEB expenses.

**Business-Type Activities:**

Overall, business-type activity revenues increased by \$3,698,561 from the prior period. This increase can be attributed to an increase of \$1,454,553 in capital grants and contributions and an increase of \$3,109,260 in charges for services. Capital grants and contributions increased due to an increase in developer contributions. Charges for services increased due to an increase in water consumption and capital recovery fees. Business-type activities expenses increased by \$2,194,072 or eight percent. This increase is attributed to increases in water purchases, payroll-related expenses, sludge removal fees, and expenses for a sanitary wastewater flow study.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$126,050,804. This balance includes \$263,034 in nonspendable, \$81,426,367 in restricted funds, \$18,842,416 in assigned funds and \$25,518,987 in unassigned funds.

There was an increase in the combined fund balance of \$40,356,496 from the prior year. The general fund balance decreased by \$421,863 largely due to increases in transfers to nonmajor funds for capital improvements and unreimbursed COVID-19 expenditures. Total revenues were higher than the prior year largely due to an increase in property tax and sales tax revenue. Property values rose over the prior year contributing to the increase in ad valorem taxes. The City's local sales tax rate increased during the current year from 1.75 percent to 2.00 percent which resulted in an increase in sales tax revenue. General fund expenditures decreased compared to prior year by \$1,284,419 primarily due to less payroll-related expenditures in public safety that were transferred to the Coronavirus relief fund.

The general fund is the chief operating fund of the City. At the end of the current year, total fund balance reached \$25,743,160. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represented 39 percent of total general fund expenditures and exceeded the City's minimum fund balance policy of 110 days or 30 percent.

The debt service fund balance experienced a decrease of $882,210 as debt service expenditures exceeded revenues recognized for the fiscal year.

**Proprietary Funds** – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund amended budget included a planned decrease in fund balance in the amount of $6,428,930. Actual fund balance for the year decreased by $421,863. Total actual revenues were less than the amended budget by a net $674,947. Actual ad valorem taxes, franchise fees, licenses and permits, fines and forfeiture, other taxes, investment earnings, and miscellaneous revenues were less than anticipated in the amended budget.

Actual expenditures were under the amended budget by $6,605,702. This positive variance was mostly a result of savings within the personnel category from payroll expenditures transferred to the COVID fund for grant reimbursement. There was also savings as a result of COVID, such as a soft hiring freeze, departments not able to provide full services throughout the year thus reducing program costs, reduction in supplies and overhead cost due to telecommuting, the freeze on travel, and reduction in training expenses as conferences and in-person classes were cancelled.

## CAPITAL ASSETS

At the end of year 2020, the City's governmental and business-type activities had invested $738,410,526 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of $51,543,366.

Major capital asset events and capital projects during the year included the following:

- Developer contributions of infrastructure in the amount of $10,723,463
- Construction of Calder Road to Ervin in the amount of $7,001,736
- Public works building in the amount of $3,492,114
- Newport waterline replacement in the amount of $1,688,068
- Gulf Coast Water Authority supply lines in the amount of $1,427,895
- Coastal Point lift station in the amount of $1,298,775
- Replacement of 42-inch waterline on SH3 in the amount of $9,183,039
- SEWPP treatment improvements in the amount of $3,315,818

More detailed information about the City's capital assets is presented in Note III. C. to the financial statements.

## LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of $250,920,000. Of this amount, $118,630,000 represented certificates of obligation and $132,030,000 was general obligation debt.

More detailed information about the City's long-term liabilities is presented in Note III. D to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

League City, like the region, has been characterized by steady long-term growth. League City is considered a highly attractive location to families and businesses alike. In 2020, League City is continuing to see new construction of all types of property and is projected to grow at 1.8 percent in 2021.

Energy remains the region's predominant economic specialty, and 2020 continued low oil prices and the accompanying impact on jobs in that sector have a slight impact on League City. In 2020, the impact of Coronavirus most notably negatively impacted League City with a decline in collections of fines and forfeitures but adversely, sales tax collections over performed budget by just over five percent. The continued nature of the Coronavirus was considered when preparing the 2021 budget. Also, recent changes in oil prices are considered as 2021 year end projections are formulated.

The City's financial planning and reporting processes to monitor the impact of the economy on major revenues have continued into fiscal year 2021. Sales taxes continue to be systematically compared with water customers, energy employment, local business conditions, and growth in the local retail base to better understand current trends in this volatile revenue source. For the eleventh year in a row, a five-year operating forecast (Long-Range Financial Forecast or LRFF) was prepared that clarified the impact of economic change and program demands on the operating budget. The LRFF also included a study of debt capacity using conservative growth and interest rate assumptions that was used to provide a complete financing plan for the five-year capital improvement plan.

To date, revenue and expenditure trends are tracking closely with budget assumptions. Major revenue sources are generally on budget and expenditures appear to be within budget.

## COVID-19

In March 2020, COVID-19 was formally recognized as a pandemic worldwide, initiating shut-down orders across the United States. The City's response was immediate in implementing protective measures, taking into consideration community and employee health, service continuity, and financial solvency. Initially, the City promulgated and implemented a telecommuting policy to relocate certain essential personnel who could complete necessary functions remotely and physically separated remaining office staff throughout City facilities to allow for social distancing. Supplemental (non-essential) services were reduced or stopped temporarily while all life-safety and emergency services continued using staffing adjustments to prevent potential disease spread, especially in smaller work groups. Facilities housing supplemental services were re-opened within weeks with specific safety protocols in place. The Council continued public meetings, first virtually then returning to in-person, to ensure City business was not interrupted. All committee and commission meetings were postponed initially, but eventually moved to virtual meetings. In addition, a soft hiring freeze and non-essential spending was implemented while the effect of the pandemic on revenues was closely monitored. To ensure the safety of both staff and citizens, cleaning and health monitoring, as well as social distancing mask requirements, and other COVID-specific protocols were expanded continually to comply with or exceed Center for Disease Control and Prevention recommendations. The City remains flexible to promptly adapt its operations where necessary if status of the pandemic should continue to change.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the Office of the Finance Director, 300 West Walker, League City, TX, 77573, telephone 281-554-1359; or for general City information, visit the City's website at www.leaguecity.com.

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***BASIC FINANCIAL STATEMENTS***

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# City of League City, Texas

***STATEMENT OF NET POSITION***

**September 30, 2020**

| | Primary Government | | | |
|---|---|---|---|---|
| | **Governmental Activities** | **Business-Type Activities** | **Total** | **Component Units** |
| **Assets** | | | | |
| Cash and equity in pooled cash | $ 124,681,087 | $ 6,851,898 | $ 131,532,985 | $ 7,706,873 |
| Investments | 10,215,083 | 3,584,877 | 13,799,960 | - |
| Receivables, net | 16,308,745 | 8,947,043 | 25,255,788 | 619,124 |
| Due from component unit | 154,781 | - | 154,781 | - |
| Restricted cash and cash equivalents | 22,611 | 41,039,682 | 41,062,293 | 688,642 |
| Restricted investments | - | 11,472,995 | 11,472,995 | - |
| Inventories | 25,663 | 146,739 | 172,402 | - |
| Prepaid items | 263,034 | 87,438 | 350,472 | - |
| Capital assets: | | | | |
| Nondepreciable | 73,894,136 | 38,896,076 | 112,790,212 | - |
| Net depreciable capital assets | 324,518,666 | 301,101,648 | 625,620,314 | - |
| | 398,412,802 | 339,997,724 | 738,410,526 | - |
| **Total Assets** | 550,083,806 | 412,128,396 | 962,212,202 | 9,014,639 |
| **Deferred Outflows of Resources** | | | | |
| Deferred charge on refunding | 1,170,865 | 1,213,112 | 2,383,977 | - |
| Deferred outflows - pensions | 2,279,556 | 2,351,832 | 4,631,388 | - |
| Deferred outflows - OPEB | 848,091 | 125,353 | 973,444 | - |
| **Total Deferred Outflows of Resources** | 4,298,512 | 3,690,297 | 7,988,809 | - |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | 11,844,073 | 4,786,362 | 16,630,435 | 271,171 |
| Due to primary government | - | - | - | 154,781 |
| Customer deposits | 13,395 | 1,549,716 | 1,563,111 | - |
| Accrued interest payable | 593,298 | 570,912 | 1,164,210 | - |
| Unearned revenue | 110,565 | 723,565 | 834,130 | - |
| Noncurrent liabilities: | | | | |
| Long-term liabilities due within one year | 12,327,259 | 8,460,502 | 20,787,761 | - |
| Long-term liabilities due in more than one year | 169,311,828 | 120,255,409 | 289,567,237 | - |
| | 181,639,087 | 128,715,911 | 310,354,998 | - |
| **Total Liabilities** | 194,200,418 | 136,346,466 | 330,546,884 | 425,952 |
| **Deferred Inflows of Resources** | | | | |
| Deferred gain on refunding | 125,357 | 377,109 | 502,466 | - |
| Deferred inflows - pensions | 3,886,261 | 2,636,415 | 6,522,676 | - |
| Deferred inflows - OPEB | 1,057,932 | 153,968 | 1,211,900 | - |
| **Total Deferred Inflows of Resources** | 5,069,550 | 3,167,492 | 8,237,042 | - |
| **Net Position** | | | | |
| Net investment in capital assets | 301,796,928 | 226,052,129 | 527,849,057 | - |
| Restricted for: | | | | |
| Debt service | 4,179,128 | 4,845,508 | 9,024,636 | - |
| Municipal court | 4,100 | - | 4,100 | - |
| Hotel occupancy tax | 1,072,408 | - | 1,072,408 | - |
| Public access channel | 1,831,112 | - | 1,831,112 | - |
| Grants | 101,201 | - | 101,201 | - |
| Tax increment reinvestment | 13,024,403 | - | 13,024,403 | - |
| Public improvement district | 2,145,510 | - | 2,145,510 | - |
| Capital projects | 8,706,639 | - | 8,706,639 | |
| Unrestricted | 22,250,921 | 45,407,098 | 67,658,019 | 8,588,687 |
| **Total Net Position** | $ 355,112,350 | $ 276,304,735 | $ 631,417,085 | $ 8,588,687 |

See Notes to Financial Statements.

# CITY OF LEAGUE CITY, TEXAS

*STATEMENT OF ACTIVITIES*

**For the Year Ended September 30, 2020**

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary Government** | | | | |
| **Governmental Activities** | | | | |
| General government | $ 15,884,893 | $ - | $ - | $ - |
| Public safety | 32,599,855 | 2,870,986 | 6,926,913 | - |
| Public works | 26,005,043 | 12,733,392 | - | 6,582,298 |
| Community services | 10,802,477 | 934,035 | 1,688,157 | 1,679,636 |
| Interest and fiscal agent fees | 4,426,280 | - | - | - |
| **Total Governmental Activities** | 89,718,548 | 16,538,413 | 8,615,070 | 8,261,934 |
| **Business-Type Activities** | | | | |
| Water and sewer | 29,253,319 | 42,138,851 | 12,395 | 4,141,165 |
| **Total Business-Type Activities** | 29,253,319 | 42,138,851 | 12,395 | 4,141,165 |
| **Total Primary Government** | $ 118,971,867 | $ 58,677,264 | $ 8,627,465 | $ 12,403,099 |
| **Component Units** | $ 3,265,835 | $ - | $ - | $ - |
| **Total Component Units** | $ 3,265,835 | $ - | $ - | $ - |

**General Revenues:**

Ad valorem taxes
Sales taxes
Franchise fees and local taxes
Investment earnings
Other revenues
Gain on disposal of capital assets

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|---|---|---|
| **Primary Government** | | | |
| **Governmental Activities** | **Business-Type Activities** | **Total** | **Component Units** |
| $ (15,884,893) | $ - | $ (15,884,893) | $ - |
| (22,801,956) | - | (22,801,956) | - |
| (6,689,353) | - | (6,689,353) | - |
| (6,500,649) | - | (6,500,649) | - |
| (4,426,280) | - | (4,426,280) | - |
| (56,303,131) | - | (56,303,131) | - |
| - | 17,039,092 | 17,039,092 | - |
| - | 17,039,092 | 17,039,092 | - |
| (56,303,131) | 17,039,092 | (39,264,039) | - |
| - | - | - | (3,265,835) |
| - | - | - | (3,265,835) |
| 47,132,177 | - | 47,132,177 | - |
| 25,146,874 | - | 25,146,874 | 3,592,411 |
| 6,470,968 | - | 6,470,968 | - |
| 1,266,888 | 876,314 | 2,143,202 | 71,810 |
| 4,450,304 | - | 4,450,304 | 24,020 |
| - | 15,725 | 15,725 | - |
| 4,511,513 | (4,511,513) | - | - |
| 88,978,724 | (3,619,474) | 85,359,250 | 3,688,241 |
| 32,675,593 | 13,419,618 | 46,095,211 | 422,406 |
| 322,436,757 | 262,885,117 | 585,321,874 | 8,166,281 |
| $ 355,112,350 | $ 276,304,735 | $ 631,417,085 | $ 8,588,687 |

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# City of League City, Texas

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

**September 30, 2020**

| | General | Debt Service | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and equity in pooled cash | $ 11,743,339 | $ 4,178,773 | $ 97,807,855 | $ 113,729,967 |
| Investments | 9,190,751 | - | - | 9,190,751 |
| Receivables, net | 9,090,570 | 435,514 | 6,619,005 | 16,145,089 |
| Due from other funds | 2,043,284 | - | - | 2,043,284 |
| Due from component unit | - | - | 154,781 | 154,781 |
| Prepaid items | 224,173 | - | 38,861 | 263,034 |
| **Total Assets** | $ 32,292,117 | $ 4,614,287 | $ 104,620,502 | $ 141,526,906 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 4,567,213 | $ - | $ 6,084,482 | $ 10,651,695 |
| Customer deposits | 8,375 | - | 5,020 | 13,395 |
| Due to other funds | - | - | 2,043,284 | 2,043,284 |
| Unearned revenue | - | - | 110,565 | 110,565 |
| **Total Liabilities** | 4,575,588 | - | 8,243,351 | 12,818,939 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue - court fines and warrants | 1,046,504 | - | - | 1,046,504 |
| Unavailable revenue - interlocal reimbursement | - | - | 227,946 | 227,946 |
| Unavailable revenue - property taxes | 926,865 | 435,159 | 20,689 | 1,382,713 |
| **Total Deferred Inflows of Resources** | 1,973,369 | 435,159 | 248,635 | 2,657,163 |
| **Fund Balances** | | | | |
| Nonspendable: | | | | |
| Prepaid items | 224,173 | - | 38,861 | 263,034 |
| Restricted for: | | | | |
| Debt service | - | 4,179,128 | - | 4,179,128 |
| Municpial court | - | - | 4,100 | 4,100 |
| Hotel occupancy tax | - | - | 1,072,408 | 1,072,408 |
| Public access channel | - | - | 1,831,112 | 1,831,112 |
| Grants | - | - | 101,201 | 101,201 |
| Tax increment reinvestment zone | - | - | 13,024,403 | 13,024,403 |
| Public improvement district | - | - | 2,145,510 | 2,145,510 |
| Capital projects | | | 59,068,505 | 59,068,505 |
| Assigned to: | | | | |
| Special projects | - | - | 5,979,895 | 5,979,895 |
| Capital projects | - | - | 12,862,521 | 12,862,521 |
| Unassigned | 25,518,987 | - | - | 25,518,987 |
| **Total Fund Balances** | 25,743,160 | 4,179,128 | 96,128,516 | 126,050,804 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 32,292,117 | $ 4,614,287 | $ 104,620,502 | $ 141,526,906 |

See Notes to Financial Statements.

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# City of League City, Texas

## *RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION*

**September 30, 2020**

| | | |
|---|---|---|
| Total fund balances for governmental funds | | $ 126,050,804 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds. | | |
| Capital assets - nondepreciable | 73,894,136 | |
| Capital assets - depreciable | 324,518,666 | |
| | | 398,412,802 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. | | 2,657,163 |
| Internal service funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. | | 10,995,004 |
| Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds. | | |
| Accrued interest | (593,298) | |
| Noncurrent liabilities due in one year | (12,327,259) | |
| Noncurrent liabilities due in more than one year | (169,311,828) | |
| Deferred charge on refunding | 1,170,865 | |
| Deferred gain on refunding | (125,357) | |
| Deferred outflows - pension | 2,279,556 | |
| Deferred outflows - OPEB | 848,091 | |
| Deferred inflows - pension | (3,886,261) | |
| Deferred inflows - OPEB | (1,057,932) | |
| | | (183,003,423) |
| **Net Position of Governmental Activities** | | $ 355,112,350 |

See Notes to Financial Statements.

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# City of League City, Texas

## *STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

## *GOVERNMENTAL FUNDS*

**For the Year Ended September 30, 2020**

| | General | Debt Service | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Ad valorem taxes | $ 32,172,823 | $ 11,503,262 | $ 3,497,762 | $ 47,173,847 |
| Sales taxes | 21,554,463 | - | 3,592,411 | 25,146,874 |
| Franchise fees | 5,476,389 | - | 275,697 | 5,752,086 |
| Other taxes | 316,698 | - | 402,184 | 718,882 |
| Assessments | - | - | 1,975,741 | 1,975,741 |
| Licenses and permits | 3,161,640 | - | - | 3,161,640 |
| Fines and forfeitures | 1,057,805 | - | 52,013 | 1,109,818 |
| Charges for services | 9,541,657 | - | 785,491 | 10,327,148 |
| Other revenue | 955,263 | 22,902 | 4,179,641 | 5,157,806 |
| Contributions | 23,356 | - | 1,664,801 | 1,688,157 |
| Investment earnings | 475,797 | 54,951 | 636,882 | 1,167,630 |
| Intergovernmental | 826,504 | - | 6,100,409 | 6,926,913 |
| **Total Revenues** | 75,562,395 | 11,581,115 | 23,163,032 | 110,306,542 |
| **Expenditures** | | | | |
| **Current:** | | | | |
| General government | 13,633,713 | 801,260 | 1,427,205 | 15,862,178 |
| Public safety | 25,764,935 | - | 5,928,337 | 31,693,272 |
| Public works | 16,755,240 | - | 1,739,076 | 18,494,316 |
| Community services | 8,348,499 | - | 1,732,123 | 10,080,622 |
| **Capital outlay** | 850,871 | - | 33,896,765 | 34,747,636 |
| **Debt service:** | | | | |
| Principal | - | 7,633,971 | 1,390,000 | 9,023,971 |
| Interest and fiscal charges | - | 4,135,864 | 1,116,314 | 5,252,178 |
| **Total Expenditures** | 65,353,258 | 12,571,095 | 47,229,820 | 125,154,173 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 10,209,137 | (989,980) | (24,066,788) | (14,847,631) |
| **Other Financing Sources (Uses)** | | | | |
| Debt issued | - | - | 45,680,000 | 45,680,000 |
| Premium on debt issued | - | - | 4,897,812 | 4,897,812 |
| Refunding bonds issued | - | 5,535,000 | 4,680,000 | 10,215,000 |
| Premium on refunding bonds | - | 892,770 | 760,720 | 1,653,490 |
| Payment to refunding bond escrow agent | - | (6,320,000) | (5,350,000) | (11,670,000) |
| Transfers in | 3,494,513 | - | 16,668,825 | 20,163,338 |
| Transfers (out) | (14,191,825) | - | (1,610,000) | (15,801,825) |
| Sale of capital assets | 66,312 | - | - | 66,312 |
| **Total Other Financing Sources (Uses)** | (10,631,000) | 107,770 | 65,727,357 | 55,204,127 |
| **Net Change in Fund Balances** | (421,863) | (882,210) | 41,660,569 | 40,356,496 |
| Beginning fund balances | 26,165,023 | 5,061,338 | 54,467,947 | 85,694,308 |
| **Ending Fund Balances** | $ 25,743,160 | $ 4,179,128 | $ 96,128,516 | $ 126,050,804 |

See Notes to Financial Statements.

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# CITY OF LEAGUE CITY, TEXAS

## *RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES*

**For the Year Ended September 30, 2020**

| | |
|---|---|
| Net changes in fund balances - total governmental funds | $ 40,356,496 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation | (10,858,669) |
| Capital contributions | 8,261,934 |
| Capital outlay | 34,841,220 |
| Loss on disposal of capital assets | (118,544) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | (785,106) |
| The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | |
| Debt issued | (55,895,000) |
| Premium on debt issued | (6,551,302) |
| Payment to refunding bond escrow agent | 11,670,000 |
| Principal repayments | 9,023,971 |
| Amortization of bond premiums | 928,170 |
| Amortization of deferred charges on refunding | (62,595) |
| Amortization of deferred gain on refunding | 22,730 |
| Accrued interest | (62,407) |
| Some expenses reported in the Statement of Activities do no require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | |
| Compensated absences | (258,710) |
| Total Other Postemployment Benefit (OPEB) liability | (866,695) |
| Net pension liability | 9,915,354 |
| Deferred outflow - pensions | (7,329,908) |
| Deferred outflow - OPEB | 335,168 |
| Deferred inflow - pensions | (2,190,766) |
| Deferred inflow - OPEB | (692,040) |
| Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and employee insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. | 2,992,292 |
| **Change in Net Position of Governmental Activities** | $ 32,675,593 |

See Notes to Financial Statements.

# City of League City, Texas

***STATEMENT OF NET POSITION***

***PROPRIETARY FUNDS (Page 1 of 2)***

**September 30, 2020**

| | Business-Type Activities | Governmental Activities |
|---|---|---|
| | **Water and Wastewater** | **Internal Service** |
| **Assets** | | |
| Current assets: | | |
| Cash and equity in pooled cash | $ 6,851,898 | $ 10,951,120 |
| Investments | 3,584,877 | 1,024,332 |
| Receivables, net | 8,947,043 | 163,656 |
| Inventories | 146,739 | 25,663 |
| Restricted cash and cash equivalents: | | |
| Customer deposits | 1,031,366 | - |
| Capital projects | 35,610,462 | - |
| Debt service | 4,397,854 | - |
| Healthcare claims | - | 22,611 |
| Restricted investments: | | |
| Capital projects | 10,454,429 | - |
| Debt service | 1,018,566 | - |
| Prepaid items | 87,438 | - |
| **Total Current Assets** | 72,130,672 | 12,187,382 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Nondepreciable | 38,896,076 | - |
| Net depreciable capital assets | 301,101,648 | 7,888,841 |
| **Total Capital Assets, Net of Accumulated Depreciation** | 339,997,724 | 7,888,841 |
| **Total Noncurrent Assets** | 339,997,724 | 7,888,841 |
| **Total Assets** | 412,128,396 | 20,076,223 |
| **Deferred Outflows of Resources** | | |
| Deferred charge on refunding | 1,213,112 | - |
| Deferred outflows - pensions | 2,351,832 | - |
| Deferred outflows - OPEB | 125,353 | - |
| **Total Deferred Outflows of Resources** | 3,690,297 | - |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 4,786,362 | 522,252 |
| Accrued interest | 570,912 | - |
| Customer deposits | 1,549,716 | - |
| Compensated absences | 195,502 | - |
| Claims payable | - | 670,126 |
| Unearned revenue | 723,565 | - |
| Bonds, notes, and loans payable | 8,265,000 | - |
| **Total Current Liabilities** | 16,091,057 | 1,192,378 |
| Noncurrent liabilities: | | |
| Compensated absences | 510,778 | - |
| Total OPEB liability | 1,296,391 | - |
| Net pension liability | 2,467,744 | - |
| Bonds, notes, and loans payable | 115,980,496 | - |
| **Total Noncurrent Liabilities** | 120,255,409 | - |
| **Total Liabilities** | 136,346,466 | 1,192,378 |

# City of League City, Texas

***STATEMENT OF NET POSITION***

***PROPRIETARY FUNDS (Page 2 of 2)***

**September 30, 2020**

| | Business-Type Activities | Governmental Activities |
|---|---|---|
| | **Water and Wastewater** | **Internal Service** |
| **Deferred Inflows of Resources** | | |
| Deferred gain on issuance of refunding bonds | 377,109 | - |
| Deferred inflows - pensions | 2,636,415 | - |
| Deferred inflows - OPEB | 153,968 | - |
| **Total Deferred Inflows of Resources** | 3,167,492 | - |
| **Net Position** | | |
| Net investment in capital assets | 226,052,129 | 7,888,841 |
| Restricted for debt service | 4,845,508 | - |
| Unrestricted | 45,407,098 | 10,995,004 |
| **Total Net Position** | $ 276,304,735 | $ 18,883,845 |

See Notes to Financial Statements.

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# City of League City, Texas

## *STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION*
## *PROPRIETARY FUNDS*

**For the Year Ended September 30, 2020**

| | Business-Type Activities | Governmental Activities |
|---|---|---|
| | **Water and Wastewater** | **Internal Service** |
| **Operating Revenues** | | |
| Charges for services | $ 36,990,951 | $ 12,608,147 |
| Other | 5,147,900 | 75,819 |
| **Total Operating Revenues** | 42,138,851 | 12,683,966 |
| **Operating Expenses** | | |
| Personnel | 6,266,064 | 773,648 |
| Contractual services | 7,039,647 | 122,619 |
| Utilities | 1,310,371 | - |
| Insurance | - | 6,556,422 |
| Repairs and maintenance | 1,698,178 | 737,198 |
| Other supplies and expenses | 759,443 | 181,620 |
| Depreciation | 7,889,386 | 1,538,183 |
| **Total Operating Expenses** | 24,963,089 | 9,909,690 |
| **Operating Income** | 17,175,762 | 2,774,276 |
| **Nonoperating Revenues (Expenses)** | | |
| Investment earnings | 876,314 | 99,258 |
| Interest expense | (4,290,230) | - |
| Intergovernmental | 12,395 | - |
| Gain (loss) on disposal of capital assets | 15,725 | (31,242) |
| **Total Nonoperating Revenues (Expenses)** | (3,385,796) | 68,016 |
| **Income Before Contributions and Transfers** | 13,789,966 | 2,842,292 |
| **Contributions and Transfers** | | |
| Capital contributions | 4,141,165 | - |
| Transfers in (out) | (4,511,513) | 150,000 |
| **Total Contributions and Transfers** | (370,348) | 150,000 |
| **Change in Net Position** | 13,419,618 | 2,992,292 |
| Beginning net position | 262,885,117 | 15,891,553 |
| **Ending Net Position** | $ 276,304,735 | $ 18,883,845 |

See Notes to Financial Statements.

# City of League City, Texas

***STATEMENT OF CASH FLOWS***

***PROPRIETARY FUNDS (Page 1 of 2)***

**For the Year Ended September 30, 2020**

| | Business-Type Activities<br>Water and Wastewater | Governmental Activities<br>Internal Service |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers and users | $ 42,326,954 | $ 12,529,019 |
| Payments to suppliers | (9,114,657) | (7,726,861) |
| Payments to employees | (5,936,928) | (773,648) |
| **Net Cash Provided by Operating Activities** | 27,275,369 | 4,028,510 |
| **Cash Flows from Noncapital Financing Activities** | | |
| Transfers in (out) from other funds | (4,511,513) | 150,000 |
| Intergovernmental revenue | 12,395 | - |
| **Net Cash Provided (Used) by Noncapital Financing Activities** | (4,499,118) | 150,000 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Principal payments on debt | (15,931,029) | - |
| Proceeds from debt issuance | 7,875,202 | - |
| Acquisition and construction of capital assets | (23,524,239) | (1,383,986) |
| Interest and fiscal charges | (5,129,026) | - |
| Proceeds from sale of capital assets | 23,513 | 165,367 |
| **Net Cash (Used) by Capital and Related Financing Activities** | (36,685,579) | (1,218,619) |
| **Cash Flows from Investing Activities** | | |
| Purchase of investments | (12,491,327) | (1,024,332) |
| Proceeds from investments | 22,756,029 | 2,002,775 |
| Interest on investments | 876,314 | 99,258 |
| **Net Cash Provided by Investing Activities** | 11,141,016 | 1,077,701 |
| **Net Increase (Decrease) in Cash and Equivalents** | (2,768,312) | 4,037,592 |
| Beginning cash and cash equivalents | 50,659,892 | 6,936,139 |
| **Ending Cash and Cash Equivalents** | $ 47,891,580 | $ 10,973,731 |
| **Unrestricted Cash and Cash Equivalents** | $ 6,851,898 | $ 10,951,120 |
| **Restricted Cash and Cash Equivalents** | 41,039,682 | 22,611 |
| **Total Cash and Cash Equivalents** | $ 47,891,580 | $ 10,973,731 |

# City of League City, Texas

***STATEMENT OF CASH FLOWS***

***PROPRIETARY FUNDS (Page 2 of 2)***

**For the Year Ended September 30, 2020**

| | Business-Type Activities | Governmental Activities |
|---|---|---|
| | **Water and Wastewater** | **Internal Service** |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | |
| Operating income | $ 17,175,762 | $ 2,774,276 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 7,889,386 | 1,538,183 |
| **Changes in Operating Assets and Liabilities:** | | |
| **(Increase) Decrease in Current Assets:** | | |
| Accounts receivable | (164,630) | (142,681) |
| Inventories | (10,308) | 8,919 |
| Prepaid items | (10,913) | - |
| Deferred outflows | (1,086,068) | - |
| **Increase (Decrease) in Current Liabilities:** | | |
| Accounts payable and accrued liabilities | 1,714,203 | (101,548) |
| Claims payable | - | (36,373) |
| Compensated absences | 135,374 | - |
| Customer deposits | 342,284 | - |
| Total OPEB liability | 118,186 | - |
| Net pension liability | (1,295,411) | - |
| Unearned revenue | 10,449 | (12,266) |
| Deferred inflows | 2,457,055 | - |
| **Net Cash Provided by Operating Activities** | $ 27,275,369 | $ 4,028,510 |
| **Noncash Capital Activities:** | | |
| Capital assets contributed during the year | $ 4,141,165 | $ - |

See Notes to Financial Statements.

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# City of League City, Texas

***STATEMENT OF NET POSITION***

***DISCRETELY PRESENTED COMPONENT UNITS***

**September 30, 2020**

| | 4B Industrial Development Corporation | Volunteer Fire Department | Total Discretely Presented Component Units |
|---|---|---|---|
| **Assets** | | | |
| Current Assets: | | | |
| Cash and equity in pooled cash | $ 7,618,301 | $ 88,572 | $ 7,706,873 |
| Receivables, net | 619,124 | - | 619,124 |
| Restricted cash and cash equivalents | 688,642 | - | 688,642 |
| **Total Assets** | 8,926,067 | 88,572 | 9,014,639 |
| **Liabilities** | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | 271,171 | - | 271,171 |
| Due to primary government | 154,781 | - | 154,781 |
| **Total Liabilities** | 425,952 | - | 425,952 |
| **Net Position** | | | |
| Unrestricted | 8,500,115 | 88,572 | 8,588,687 |
| **Total Net Position** | $ 8,500,115 | $ 88,572 | $ 8,588,687 |

See Notes to Financial Statements.

# CITY OF LEAGUE CITY, TEXAS

***STATEMENT OF ACTIVITIES***

***DISCRETELY PRESENTED COMPONENT UNITS***

**For the Year Ended September 30, 2020**

| | | Program Revenues | |
|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** |
| **Component Units** | | | |
| 4B Industrial Development Corporation | $ 3,244,440 | $ - | $ - |
| Volunteer Fire Department | 21,395 | - | - |
| **Total Component Units** | $ 3,265,835 | $ - | $ - |

**General Revenues:**

Sales taxes

Contributions

Investment earnings

**Total General Revenues**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

| Net (Expense) Revenue and Changes in Net Position | | |
|---|---|---|
| 4B Industrial Development Corporation | Volunteer Fire Department | Total |
| $ (3,244,440) | $ - | $ (3,244,440) |
| - | (21,395) | (21,395) |
| (3,244,440) | (21,395) | (3,265,835) |
| | | |
| 3,592,411 | - | 3,592,411 |
| - | 24,020 | 24,020 |
| 71,810 | - | 71,810 |
| 3,664,221 | 24,020 | 3,688,241 |
| 419,781 | 2,625 | 422,406 |
| 8,080,334 | 85,947 | 8,166,281 |
| $ 8,500,115 | $ 88,572 | $ 8,588,687 |

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The City of League City, Texas (the "City") was incorporated in May 1962 and adopted a "Home Rule Charter" which provided for a "Mayor-Council" form of government. In May 2010, the voters of the City approved various amendments to the City charter, including adoption of the Council Manager form of government and the creation of the office of the City Manager. A Mayor and seven Council members are elected by voters of the City at large for four year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the charter or by ordinance. The Mayor is the presiding officer of the City Council.

The City Manager is the head of the administrative departments of the City and is the supervisor of all administrative officers, employees, directors, and department heads. Departments and agencies of the City submit budget requests to the City Manager.

The City provides the following services: public safety (police, fire, and emergency management services), public works, water and sewer services, solid waste collection and disposal (contract), community services, and general government.

The City is an independent political subdivision of the State of Texas (the "State") governed by an elected Council and a Mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Discretely Presented Component Units**

The aggregate governmental discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

**City of League City Section 4B Industrial Development Corporation**

All powers of the 4B Industrial Development Corporation (the "Corporation") are vested in a Board consisting of seven persons who are appointed by the City Council. The Board acts on behalf of the City in administering the provisions of Section 4B, Article 5190.6, of the Development Act of 1979, State of Texas. The Corporation is funded by a one-quarter percent local sales and use tax approved by local voters. The Corporation is fiscally dependent on the City because the capital budgets are approved by City Council. In addition, the Corporation is prohibited from issuing bonded debt without approval of the City Council. The projects developed by the Corporation serve the citizens of the City.

**League City Volunteer Fire Department**

The League City Volunteer Fire Department was established for the purpose of organizing and maintaining fire companies, providing free fire protection to the citizens of the City. A budget is approved annually to provide fire protection to the citizens of the City. In fiscal year 2011, the City hired a full-time fire chief, who provides leadership and direction for the volunteer fire department and the volunteers.

**Blended Component Units**

The following blended component units are presented with the primary government:

**City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two – Victory Lakes**

Five of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The Clear Creek Independent School District (the "School District") is a participant in this TIRZ and appoints one member to the Board. The County of Galveston (the "County") is also a participant and appoints the remaining member of the Board. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs. On January 24, 2017, the City Council approved a resolution to amend the interlocal agreements between the City, the TIRZ, the School District and the County. These amendments will discontinue the participation of the School District and the County in the TIRZ. The City will continue to participate in the TIRZ until the final projects which the City is funding are complete.

**City of League City Tax Increment Reinvestment Zone (TIRZ) No. Three – CenterPointe**

Six of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The remaining board member is appointed by the County of Galveston. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs. The TIRZ expired February 2020. The remaining funds are to be used by the City to complete certain infrastructure improvements within the TIRZ.

**City of League City Tax Increment Reinvestment Zone (TIRZ) No. Four – Westwood**

Six of the nine members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The other three board members are represented by a County of Galveston appointee, the State Senator for the area or designee, and the State Representative for the area or designee. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

**City of League City Public Improvement District (PID) No. One – Magnolia Creek**

City Council approved an ordinance terminating TIRZ No. One on August 14, 2010. However, the TIRZ Board continues to oversee the operations of the PID created in conjunction with the TIRZ. The PID was created to assist in the financing of the residential costs of a master planned community. The revenues are derived from an assessment levied against each residential lot and are used to reimburse the developer for infrastructure costs. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

**City of League City Public Improvement District (PID) No. Two – Victory Lakes**

The TIRZ Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

**City of League City Public Improvement District (PID) No. Three – CenterPointe**

The TIRZ Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

**City of League City Public Improvement District (PID) No. Five – Park on Clear Creek**

This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 25 years. The City Council has dissolved the Board and now functions on its behalf.

Each of the blended component units above have been included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists. More specifically, each of the TIRZ and PIDs have been blended as each of these component units exclusively, or almost exclusively, benefits the City.

TIRZ No. One, a previous component unit of the City, was dissolved during fiscal year 2010. The remaining funds are to be used by the City to complete certain infrastructure improvements within the TIRZ.

Complete financial statements of the individual component units can be obtained directly from administrative offices of the City.

Not included as part of the City's reporting entity are 12 municipal utility districts (MUDs). The City acts as an "operator" of the facilities. The City rebates 2 of the MUDs from 35 to 40 percent of taxes levied and collected within the MUDs but does not guarantee the debt of the MUDs. The MUDs' Boards of Directors are elected officials and the City exercises no control over the Boards of Directors. The MUDs construct the facilities and issue bonds to finance such facilities. The MUDs release their security interest in the facilities to the City, and the City operates and maintains the systems. Galveston County MUD #13 was dissolved during fiscal year 2017. Galveston County MUD #3, South Shore Harbour MUD #2, and South Shore Harbour MUD #3 were dissolved during fiscal years 2014, 2012, and 2011, respectively. The City has taken over the debt of these entities.

Also, not included as part of the reporting entity is the Westwood Management District. This development district is funded through a property tax with no City rebate. The initial Board was appointed by the City Council, but the City does not exercise control over the Board nor does the City guarantee the debt of the District.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales taxes, and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects. The capital projects funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and wastewater fund is considered a major fund for reporting purposes.

Additionally, the City reports the following fund type:

*Internal service funds* account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The City's internal service funds are used to account for motor pool services and the capital replacement of vehicles and equipment for the City's fleet, which are financed from systematic transfers from general governmental and enterprise funds, and to account for premiums paid on a group health insurance plan, which provides coverage for City employees.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

## E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

## F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

### 1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in statewide investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as “cash and equity in pooled cash.” For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a money market mutual fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City’s investments.

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government or U.S. Government agencies
- Obligations of the State or its agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers’ acceptances
- Statewide investment pools

**3. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**4. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

| Asset Description | Estimated Useful Life |
|---|---|
| Buildings and improvements | 30 years |
| Equipment | 5 years |
| Water rights | 50 years |
| Water and sewer system | 50 years |
| Infrastructure | 50 years |

### 6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.

- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/total OPEB liability during the measurement period in which the contributions were made.

- A deferred charge/gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, court fines and warrants, and interlocal reimbursement. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

### 7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accrual rates for all regular full-time employees, excluding Civil Service and Emergency Medical Service employees shall accrue the following hours of vacation.

| Length of Service (Months) | Maximum Vacation Leave Accrual |
|---|---|
| 6 month-4 years | 10 work days |
| 5-9 years | 15 work days |
| 10-14 years | 20 work days |
| 15-19 years | 25 work days |
| Over 20 years | 30 work days |

Regular full-time employees hired after August 1, 2015 will have an annual cap of 20 work days beginning on their fifthteen year of employment with the City. Regular full-time employees hired prior to August 1, 2015 will have an annual cap of 30 work days beginning on their twentieth year of employment with the City. Unused vacation accumulated, up to certain amounts, may be paid to employees upon termination of employment. Vacation leave accruals in excess of two years' accrual will be forfeited at the end of the calendar year.

Regular full-time non-Civil Service employees will accrue sick leave at the rate of four hours per pay period for 24 pay periods per year which equates to 12 days per year. Non-Civil Service employees with ten years of completed service will, upon separation of employment, receive the cash value of accrued sick leave, up to a cap of 360 hours. Employees employed prior to August 1, 2015, who officially retire from City employment, will receive the cash value of accrued sick leave, up to a cap of 720 hours. Civil Service employees will be paid sick leave up to a maximum of 720 hours upon separation.

### 8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

### 9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### 10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### 11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The City has adopted a policy to maintain a minimum fund balance assigned for operating reserves in the general fund of 110 days of the current year operating expenditures. Fund balances are assigned or restricted in the special revenue funds based on the designated purpose of each fund.

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

**13. Pensions**

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**14. Other Postemployment Benefits**

The City offers two OPEB plans, a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF) administered by TMRS and a single-employer defined benefit OPEB plan, known as the Retiree Medical Program (the "Program") administered by the City. Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to total OPEB liability, and total OPEB expense have been determined on the same basis as they are reported by the SDBF and the Program. For this purpose, the SDBF and the Program recognize benefit payments when due and payable in accordance with the benefit terms.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and internal service funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects funds, which adopt a project length budgets. In addition, the following special revenue funds do not have an adopted budget: Community Development Block Grant, TIRZ No. One, Two, Three, and Four, PID No. One, Two, Three, and Five, Galveston County MUD No. Two, Municipal Court Time Payment Reimbursement Fee, Sales Tax Capital Projects, and special assessments. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2020.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrance accounting is not utilized by the City.

### A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

| | |
|---|---|
| Debt Service: | |
| Payment to refunding bond escrow agent | $6,320,000 |
| Interest and fiscal charges | $101,738 |
| 4B Park Maintenance and Operations: | |
| Payment to refunding bond escrow agent | $5,350,000 |
| Interest and fiscal charges | $90,507 |

While the debt service and 4B Park Maintenance and Operations funds were not amended for the payments to the refunding bond escrow agent, the City Council did authorize the issuance of General Obligation Refunding and Improvement Bonds, Series 2019. Interest and fiscal charges for the debt service and 4B Park Maintenance and Operations funds included expenditures for bond issuance costs that were not amended. These costs also relate to the issuance of the Series 2019 bonds that were authorized by City Council.

## III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

### A. Deposits and Investments.

As of September 30, 2020, the City had the following investments:

| Investment Type | Primary Government | Component Unit | Total | Weighted Average Maturity (Days) |
|---|---|---|---|---|
| Investments measured at amortized cost: | | | | |
| External investment pools: | | | | |
| TexPool | $ 66,776,475 | $ 7,706,482 | $ 74,482,957 | 38 |
| TexSTAR | 26,221,553 | - | 26,221,553 | 39 |
| Texas CLASS | 56,953,056 | - | 56,953,056 | 22 |
| Lone Star | 3,176,527 | - | 3,176,527 | 40 |
| Certificates of deposit | 23,736,743 | - | 23,736,743 | 197 |
| | 176,864,354 | 7,706,482 | 184,570,836 | |
| Cash deposits | 21,003,879 | - | 21,003,879 | |
| **Total Portfolio** | $ 197,868,233 | $ 7,706,482 | $ 205,574,715 | |
| Portfolio weighted average maturity | | | | 49 |

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Credit risk.* The City's policy requires that investment pools must be rated no lower than "AAA" or "AAAm". Bankers' acceptances must be issued in the United States and carry a rating of "A1/P1" as provided by two of the top nationally recognized rating agencies. As of September 30, 2020, the City's investments in investment pools were rated "AAAm" or "AAA" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that the City's deposits may not be returned in the event of a bank failure. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2020, fair market values of pledged securities and FDIC coverage exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, Texpool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of $1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

**TexSTAR**

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

**Texas CLASS**

The Texas Cooperative Liquid Assets Securities System Trust (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

**Lone Star**

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the lnterlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and nonmembers. Lone Star is rated 'AAA' by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The City is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of $1.00. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of $1.00.

## B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, the enterprise fund, and the internal service fund including the applicable allowances for uncollectible accounts:

| | General | Debt Service | Nonmajor | Water and Wastewater | Internal Service | Total |
|---|---|---|---|---|---|---|
| Ad valorem taxes | $ 1,397,414 | $ 664,182 | $ 1,960 | $ - | $ - | $ 2,063,556 |
| Other taxes | 5,360,668 | - | 797,763 | - | - | 6,158,431 |
| Accounts | 6,037,989 | - | 704,311 | 9,436,768 | 9,529 | 16,188,597 |
| Intergovernmental | 309,463 | - | 5,076,681 | - | - | 5,386,144 |
| Other | 288,966 | - | 39,105 | 88,897 | 154,127 | 571,095 |
| Less allowance | (4,303,930) | (228,668) | (815) | (578,622) | - | (5,112,035) |
| **Total** | $ 9,090,570 | $ 435,514 | $ 6,619,005 | $ 8,947,043 | $ 163,656 | $ 25,255,788 |

### C. Capital Assets

A summary of changes in capital assets for governmental activities for the year end is as follows:

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases) | Ending Balance |
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 21,936,785 | $ 335,125 | $ - | $ 22,271,910 |
| Construction in progress | 36,523,665 | 38,533,997 | (23,435,436) | 51,622,226 |
| **Total capital assets not being depreciated** | 58,460,450 | 38,869,122 | (23,435,436) | 73,894,136 |
| Other capital assets | | | | |
| Infrastructure | 428,188,740 | 16,912,763 | - | 445,101,503 |
| Buildings and improvements | 81,162,700 | 9,914,401 | (347,983) | 90,729,118 |
| Machinery and equipment | 45,037,867 | 2,195,048 | (1,485,057) | 45,747,858 |
| **Total other capital assets** | 554,389,307 | 29,022,212 | (1,833,040) | 581,578,479 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (181,769,648) | (7,916,656) | - | (189,686,304) |
| Buildings and improvements | (33,747,088) | (1,807,028) | 230,440 | (35,323,676) |
| Machinery and equipment | (30,695,355) | (2,673,168) | 1,318,690 | (32,049,833) |
| **Total accumulated depreciation** | (246,212,091) | (12,396,852) | 1,549,130 | (257,059,813) |
| **Other capital assets, net** | 308,177,216 | 16,625,360 | (283,910) | 324,518,666 |
| **Governmental Activities Capital Assets, Net** | $ 366,637,666 | $ 55,494,482 | $ (23,719,346) | 398,412,802 |
| | | Less associated debt | | (148,023,248) |
| | | Less deferred gain on refunding | | (125,357) |
| | | Plus deferred charge on refunding | | 1,170,865 |
| | | Plus unspent bond proceeds | | 50,361,866 |
| | | **Net Investment in Capital Assets** | | $ 301,796,928 |

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

| | |
|---|---|
| General government | $ 308,550 |
| Public safety | 2,434,625 |
| Public works | 8,472,166 |
| Community services | 1,181,511 |
| **Total Governmental Activities Depreciation Expense** | $ 12,396,852 |

The following is a summary of changes in capital assets for business-type activities for the year end:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|---|---|---|---|
| **Business-Type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 3,732,267 | $ 115,365 | $ - | $ 3,847,632 |
| Construction in progress | 15,483,239 | 27,361,673 | (7,796,468) | 35,048,444 |
| **Total capital assets not being depreciated** | 19,215,506 | 27,477,038 | (7,796,468) | 38,896,076 |
| Other capital assets | | | | |
| Infrastructure | 361,460,402 | 7,663,338 | - | 369,123,740 |
| Water rights | 15,935,386 | - | - | 15,935,386 |
| Buildings and improvements | 654,549 | - | (59,874) | 594,675 |
| Machinery and equipment | 7,703,337 | 321,496 | (121,973) | 7,902,860 |
| **Total other capital assets** | 385,753,674 | 7,984,834 | (181,847) | 393,556,661 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (71,507,369) | (7,260,342) | - | (78,767,711) |
| Water rights | (5,400,505) | (299,406) | - | (5,699,911) |
| Buildings and improvements | (510,351) | (8,523) | 52,086 | (466,788) |
| Machinery and equipment | (7,321,461) | (321,115) | 121,973 | (7,520,603) |
| **Total accumulated depreciation** | (84,739,686) | (7,889,386) | 174,059 | (92,455,013) |
| **Other capital assets, net** | 301,013,988 | 95,448 | (7,788) | 301,101,648 |
| **Business-Type Activities Capital Assets, Net** | $ 320,229,494 | $ 27,572,486 | $ (7,804,256) | 339,997,724 |
| | | Less associated debt | | (124,245,496) |
| | | Less deferred gain on refunding | | (377,109) |
| | | Plus deferred charge on refunding | | 1,213,112 |
| | | Plus unspent bond proceeds | | 9,463,898 |
| | | **Net Investment in Capital Assets** | | $ 226,052,129 |

Depreciation was charged to business-type functions as follows:

| | |
|---|---|
| Water and sewer | $ 7,889,386 |
| **Total Business-Type Activities Depreciation Expense** | $ 7,889,386 |

### D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities as of year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

| | Beginning Balance | Additions | Reductions | Ending Balance | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | |
| Bonds, notes, and other payables: | | | | | | |
| General obligation bonds | $ 29,083,971 | $ 55,895,000 | $ (4,028,971) | $ 80,950,000 | * | $ 5,515,000 |
| Certificates of obligation | 68,505,000 | - | (16,040,000) | 52,465,000 | * | 3,425,000 |
| Direct placement | 1,900,000 | - | (625,000) | 1,275,000 | * | 450,000 |
| Unamortized premiums and discounts | 7,710,116 | 6,551,302 | (928,170) | 13,333,248 | * | - |
| | 107,199,087 | 62,446,302 | (21,622,141) | 148,023,248 | | 9,390,000 |
| Other liabilities: | | | | | | |
| Compensated absences | 6,180,012 | 3,500,791 | (3,242,081) | 6,438,722 | | 2,937,259 |
| Net pension liabiltiy | 27,585,605 | - | (9,915,354) | 17,670,251 | | - |
| Total OPEB liability | 8,640,171 | 866,695 | - | 9,506,866 | | - |
| **Total Governmental Activities** | $ 149,604,875 | $ 66,813,788 | $ (34,779,576) | $ 181,639,087 | | $ 12,327,259 |
| | | | **Long-term debt due in more than one year** | $ 169,311,828 | | |
| | | | *** Debt associated with governmental activity capital assets** | $ 148,023,248 | | |

| | Beginning Balance | Additions | Reductions | Ending Balance | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Business-Type Activities:** | | | | | | |
| Revenue bonds | $ 8,375,000 | $ - | $ (8,375,000) | $ - | | $ - |
| General obligation bonds | 47,541,029 | 6,845,000 | (4,581,029) | 49,805,000 | ** | 4,835,000 |
| Certificates of obligation | 68,890,000 | - | (2,725,000) | 66,165,000 | ** | 3,170,000 |
| Contract revenue bonds | 510,000 | - | (250,000) | 260,000 | ** | 260,000 |
| Unamortized premiums and discounts | 7,824,090 | 1,030,202 | (838,796) | 8,015,496 | ** | - |
| | 133,140,119 | 7,875,202 | (16,769,825) | 124,245,496 | | 8,265,000 |
| Other liabilities: | | | | | | |
| Compensated absences | 570,906 | 405,296 | (269,922) | 706,280 | | 195,502 |
| Net pension liability | 3,763,155 | - | (1,295,411) | 2,467,744 | | - |
| Total OPEB liability | 1,178,205 | 118,186 | - | 1,296,391 | | - |
| **Total Business-Type Activities** | $ 138,652,385 | $ 8,398,684 | $ (18,335,158) | $ 128,715,911 | | $ 8,460,502 |
| | | | **Long-term debt due in more than one year** | $ 120,255,409 | | |
| | | | **** Debt associated with business-type activity capital assets** | $ 124,245,496 | | |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end comprised the following debt issues:

**Governmental Activities:**

| Series | | Original Issue | Interest Rate | | | | Balance |
|---|---|---|---|---|---|---|---|
| **General Obligation Bonds** | | | | | | | |
| 2011A General Obligation Refunding Bonds | $ | 6,975,000 | 3.00% | to | 5.00% | $ | 2,895,000 |
| 2012 General Obligation Refunding Bonds | $ | 6,785,000 | 3.00% | to | 5.00% | | 4,555,000 |
| 2013 General Obligation Refunding Bonds | $ | 13,819,988 | 2.00% | to | 4.00% | | 5,110,000 |
| 2016 General Obligation Refunding Bonds | $ | 12,900,000 | 3.00% | to | 5.00% | | 11,800,000 |
| 2016A General Obligation Refunding Bonds | $ | 2,835,000 | 2.00% | to | 5.00% | | 1,455,000 |
| 2019 General Obligation Refunding* and Improvement Bonds | $ | 28,770,000 | 3.75% | to | 5.00% | | 28,010,000 |
| 2020 General Obligation Improvement Bonds | $ | 13,025,000 | 2.00% | to | 4.00% | | 27,125,000 |
| | | | **Total General Obligation Bonds** | | | | 80,950,000 |
| **Certificates of Obligation** | | | | | | | |
| 2010 Tax and Revenue Certificates of Obligation * | $ | 10,000,000 | 3.25% | to | 5.00% | | 535,000 |
| 2012A Tax and Revenue Certificates of Obligation | $ | 33,675,000 | 3.00% | to | 5.00% | | 24,270,000 |
| 2015 Tax and Revenue Certificates of Obligation | $ | 3,020,000 | 3.63% | to | 5.00% | | 2,490,000 |
| 2016 Tax and Revenue Certificates of Obligation | $ | 8,970,000 | 2.13% | to | 5.00% | | 7,740,000 |
| 2017 Tax and Revenue Certificates of Obligation | $ | 8,730,000 | 3.00% | to | 5.00% | | 7,395,000 |
| 2018 Tax and Revenue Certificates of Obligation | $ | 11,165,000 | 3.13% | to | 5.00% | | 10,035,000 |
| | | | **Total Certificates of Obligation** | | | | 52,465,000 |
| **Direct Placement** | | | | | | | |
| 2013A General Obligation Refunding Bonds * | $ | 2,190,000 | 2.00% | to | 4.00% | | 500,000 |
| 2014A General Obligation Refunding Bonds * | $ | 3,200,000 | 2.00% | to | 4.00% | | 775,000 |
| | | | **Total Direct Placement** | | | | 1,275,000 |
| | | | **Total Governmental Activities Long-Term Debt** | | | $ | 134,690,000 |

* This general obligation debt is supported by a general property tax pledge; however, the repayment of all or a portion of this general obligation debt is expected to be paid from revenues other than ad valorem tax revenues, including payments from tax increment reinvestment zones and payments from the 4B Development Corporation. Payments from tax increment reinvestment zones and the 4B Development Corporation may not be legally pledged to the obligations to which their payments are expected to be dedicated, but are contractually obligated to be paid to the City for that purpose.

**Business-Type Activities:**

| Series | | Original Issue | Interest Rate | | | | Balance |
|---|---|---|---|---|---|---|---|
| **General Obligation Bonds** | | | | | | | |
| 2011A General Obligation Refunding Bonds | $ | 4,705,000 | 3.00% | to | 5.00% | $ | 2,170,000 |
| 2012 General Obligation Refunding Bonds | $ | 6,510,000 | 3.00% | to | 5.00% | | 3,970,000 |
| 2015 General Obligation Refunding Bonds | $ | 17,605,000 | 3.00% | to | 5.00% | | 11,725,000 |
| 2016 General Obligation Refunding Bonds | $ | 16,355,000 | 3.00% | to | 5.00% | | 16,355,000 |
| 2016A General Obligation Refunding Bonds | $ | 12,155,000 | 2.00% | to | 5.00% | | 8,740,000 |
| 2019 General Obligation Refunding* and Improvement Bonds | $ | 6,845,000 | 3.75% | to | 5.00% | | 6,845,000 |
| | | | **Total General Obligation Bonds** | | | | 49,805,000 |
| **Certificates of Obligation** | | | | | | | |
| 2011A Tax and Revenue Certificates of Obligation | $ | 32,290,000 | 3.00% | to | 5.00% | | 31,300,000 |
| 2012B Tax and Revenue Certificates of Obligation | $ | 19,635,000 | 2.00% | to | 5.00% | | 13,395,000 |
| 2015 Tax and Revenue Certificates of Obligation | $ | 14,425,000 | 3.63% | to | 5.00% | | 11,905,000 |
| 2016 Tax and Revenue Certificates of Obligation | $ | 3,645,000 | 2.13% | to | 5.00% | | 3,145,000 |
| 2017 Tax and Revenue Certificates of Obligation | $ | 7,905,000 | 3.00% | to | 5.00% | | 6,420,000 |
| | | | **Total Certificates of Obligation** | | | | 66,165,000 |
| **Contract Revenue Bonds** | | | | | | | |
| 2011F GCWA Contract Revenue Refunding Bonds | $ | 2,250,000 | 2.00% | to | 4.00% | | 260,000 |
| | | | **Total Contract Revenue Bonds** | | | | 260,000 |
| | | | **Total Business-Type Activities Long-Term Debt** | | | $ | 116,230,000 |

* This general obligation debt is supported by a general property tax pledge; however, the repayment of this general obligation debt is expected to be paid from surplus revenues of the water and sewer system. Water and sewer revenues are pledged to pay certificates of obligation on a subordinate basis, but it is the historic policy of the City to pay portions of the listed general obligation refunding bonds from surplus revenues of the water and sewer system.

The annual requirements to amortize general obligation bonds outstanding at year end are as follows:

| Year Ending Sep. 30 | Governmental Activities Principal | Interest | Total | Business-Type Activities Principal | Interest | Total |
|---|---|---|---|---|---|---|
| 2021 | $ 5,515,000 | $ 2,830,475 | $ 8,345,475 | $ 4,835,000 | $ 1,957,482 | $ 6,792,482 |
| 2022 | 5,685,000 | 2,655,264 | 8,340,264 | 4,765,000 | 1,724,932 | 6,489,932 |
| 2023 | 5,745,000 | 2,398,613 | 8,143,613 | 4,645,000 | 1,491,732 | 6,136,732 |
| 2024 | 5,470,000 | 2,149,198 | 7,619,198 | 4,555,000 | 1,278,797 | 5,833,797 |
| 2025 | 5,705,000 | 1,896,463 | 7,601,463 | 4,440,000 | 1,070,862 | 5,510,862 |
| 2026-2030 | 25,575,000 | 6,119,906 | 31,694,906 | 17,560,000 | 2,662,776 | 20,222,776 |
| 2031-3035 | 14,070,000 | 2,560,915 | 16,630,915 | 9,005,000 | 456,262 | 9,461,262 |
| 2036-2040 | 13,185,000 | 719,100 | 13,904,100 | - | - | - |
| **Total** | $ 80,950,000 | $ 21,329,934 | $ 102,279,934 | $ 49,805,000 | $ 10,642,843 | $ 60,447,843 |

The annual requirements to amortize certificates of obligation outstanding at year end are as follows:

| | Governmental Activities | | | Business-Type Activities | | |
|---|---|---|---|---|---|---|
| Year Ending Sep. 30 | Principal | Interest | Total | Principal | Interest | Total |
| 2021 | $ 3,425,000 | $ 2,154,035 | $ 5,579,035 | $ 3,170,000 | $ 2,634,874 | $ 5,804,874 |
| 2022 | 3,510,000 | 1,992,923 | 5,502,923 | 3,635,000 | 2,489,799 | 6,124,799 |
| 2023 | 3,565,000 | 1,823,148 | 5,388,148 | 3,875,000 | 2,342,986 | 6,217,986 |
| 2024 | 3,640,000 | 1,644,622 | 5,284,622 | 4,075,000 | 2,203,999 | 6,278,999 |
| 2025 | 3,560,000 | 1,462,447 | 5,022,447 | 4,570,000 | 2,030,792 | 6,600,792 |
| 2026-2030 | 19,095,000 | 4,829,762 | 23,924,762 | 29,620,000 | 6,673,965 | 36,293,965 |
| 2031-2035 | 12,940,000 | 1,379,144 | 14,319,144 | 15,995,000 | 1,080,938 | 17,075,938 |
| 2036-2038 | 2,730,000 | 119,384 | 2,849,384 | 1,225,000 | 34,545 | 1,259,545 |
| **Total** | $ 52,465,000 | $ 15,405,465 | $ 67,870,465 | $ 66,165,000 | $ 19,491,898 | $ 85,656,898 |

The annual requirements to amortize contract revenue bonds outstanding at year end are as follows:

| | Business-Type Activities | | |
|---|---|---|---|
| Year Ending Sep. 30 | Principal | Interest | Total |
| 2021 | $ 260,000 | $ 10,400 | $ 270,400 |
| **Total** | $ 260,000 | $ 10,400 | $ 270,400 |

The annual requirements to amortize direct placement bonds outstanding at year end are as follows:

| | Governmental Activities | | |
|---|---|---|---|
| Year Ending Sep. 30 | Principal | Interest | Total |
| 2021 | $ 450,000 | $ 21,567 | $ 471,567 |
| 2022 | 420,000 | 12,720 | 432,720 |
| 2023 | 270,000 | 5,727 | 275,727 |
| 2024 | 65,000 | 2,265 | 67,265 |
| 2025 | 50,000 | 994 | 50,994 |
| 2026 | 20,000 | 221 | 20,221 |
| **Total** | $ 1,275,000 | $ 43,494 | $ 1,318,494 |

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water, and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. Future ad valorem tax revenues and water and sewer system revenues secure these debt obligations.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

As of September 30, 2020, the City has $95,406,250 of authorized but unissued bonds.

**General Obligation Bonds**

During the fiscal year, the City issued $35,615,000 of General Obligation Refunding (the "Refunding Bonds") and Improvement Bonds (the "Improvement Bonds"), Series 2019. The Improvement Bonds will be used to fund the acquisition, design, construction, equipment, and improvement of streets, roadways, traffic, and drainage improvements; for the purchase of materials, supplies, equipment, machinery, building, land and rights of way related thereto; and to pay the costs of issuance associated with the sale of the Improvement Bonds. The Refunding Bonds will be used to provide resources for all future debt service payments of $11,670,000 of Combination Tax and Revenue Certificate of Obligations, Series 2011, and $7,755,000 of Waterworks and Sewer System Revenue Bonds, Series 2011. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by $78,335. This amount is being amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt. This current refunding was undertaken to reduce total debt service payments over the next ten years by $3,126,263 and resulted in an economic gain of $2,774,499.

During the fiscal year, the City also issued $27,125,000 of General Obligation Improvement Bonds, Series 2020 (the "Bonds"). Proceeds from the sale of the Bonds will be used to provide funds for permanent public improvements including planning, designing, constructing, improving, reconstructing, renovating, repairing, replacing and expanding flood protection and storm drainage facilities and improvements, and erosion control, including the acquisition of land. Proceeds will also be used in designing, developing, constructing, improving, extending, and expanding streets, roadways, throughfares, sidewalks, bridges, and mobility improvements including street lighting, right-of-way protection, and related storm drainage improvements and to pay the costs of issuance associated with the sale of the Bonds.

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

## E. Interfund Transfers

Transfers between the primary government funds during the year were as follows:

| Transfer Out | Transfer In | | Amounts |
|---|---|---|---|
| General fund | Nonmajor governmental funds | $ | 14,068,825 |
| General fund | Internal service fund | | 123,000 |
| Water and wastewater fund | General fund | | 3,484,513 |
| Water and wastewater fund | Internal service fund | | 27,000 |
| Water and wastewater fund | Nonmajor governmental funds | | 1,000,000 |
| Nonmajor governmental funds | General fund | | 10,000 |
| Nonmajor governmental funds | Nonmajor governmental funds | | 1,600,000 |
| | **Total** | $ | 20,313,338 |

The general fund made transfers to nonmajor governmental funds to provide additional resources for various capital improvements and COVID-19 expenditures. The water and wastewater fund also provided resources to nonmajor governmental funds for various capital improvements. Transfers to the internal service fund from the general and water and wastewater fund were to provide additional resources for employee benefits expenditures. Transfers between nonmajor governmental funds were for grant reimbursement for capital purchases that were a result of damages due to Hurricane Harvey. Transfers to the general fund from the nonmajor governmental and water and wastewater funds are for annual subsidy payments.

The composition of interfund balances as of year end were as follow:

| Due to | Due from | | Amounts |
|---|---|---|---|
| General fund | Nonmajor Governmental funds | | 2,043,284 |
| | **Total** | $ | 2,043,284 |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

## F. Restricted Assets

As of September 30, 2020, the City held restricted cash and investments in the water and wastewater fund and the internal service fund for the following purposes:

| **Restricted for:** | | |
|---|---|---|
| Customer deposits | $ | 1,031,366 |
| Capital projects | | 46,778,066 |
| Debt service | | 5,416,420 |
| Healthcare claims | | 22,611 |
| **Total** | $ | 53,248,463 |

## IV. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years. In addition, the City purchased windstorm insurance from highly rated private carriers to cover City property for that specific loss.

### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are uncertain.

### C. Construction and other significant commitments

The City has active construction projects as of September 30, 2020. A majority of these projects are for drainage improvements, street improvements, fire station improvements and expansions, a new animal adoption center, a new public works facility, and improvements to the water and wastewater systems.

Construction in progress and remaining commitments under related construction contracts for general government construction projects at year end were as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|---|---|---|
| Robinson Bayou Bank Stabilization | $ 1,936,035 | $ 1,931,493 | $ 4,542 |
| Bay Ridge Flood Reduction | 261,015 | 220,992 | 40,023 |
| Deer Ridge Buy-out & Improvements | 253,976 | 200,456 | 53,520 |
| Dove Meadows & Borden's Gully Detention | 259,000 | 139,960 | 119,040 |
| The Meadows Subdivision Drainage Improvements | 334,066 | 15,896 | 318,170 |
| Bay Ridge Flood Reduction Phase 1 | 263,000 | 184,606 | 78,394 |
| Bay Ridge Flood Reduction Phase 4 | 669,348 | 360,081 | 309,267 |
| Magnolia Creek & Cedar Gully Channel Improvements | 924,200 | 587,364 | 336,836 |
| Bay Colony Detention Improvements | 479,718 | 397,340 | 82,378 |
| Clear Creek Tributaries | 362,900 | 244,040 | 118,860 |
| Countryside Subdivision Drainage Improvements | 78,205 | 64,391 | 13,814 |
| Rustic Oaks Subdivision Drainage Improvements | 78,205 | 64,391 | 13,814 |
| Bayridge Subdivision Phase 1 | 240,000 | 194,283 | 45,717 |
| Benson Bayou & Mitigation Pond | 157,320 | 93,764 | 63,556 |
| City-wide 2D Drainage Model | 806,888 | 415,159 | 391,729 |
| Hurricane Harvey Drainage Project (Gauge) | 525,560 | 60,405 | 465,155 |
| Hurricane Harvey Drainage Project (Magnolia Creek) | 156,800 | 54,339 | 102,461 |
| Main Street/Downtown | 7,186,405 | 6,603,658 | 582,747 |
| Council Chambers Remodel | 46,578 | 30,495 | 16,083 |
| Purchase of Public Works Facility | 3,914,443 | 3,872,594 | 41,849 |
| Fire Station 3 Improvements | 7,476 | - | 7,476 |
| Public Safety Annex Station 6 | 5,160,817 | 5,153,015 | 7,802 |
| Fire Station 5 Expansion | 34,177 | 15,927 | 18,250 |
| Animal Adoption Center | 5,957,697 | 5,844,876 | 112,821 |
| TxDOT FM518 Bypass Hike & Bike | 1,766,655 | 1,260,413 | 506,242 |
| Hike and Bike Trails Way-Finding Signage TxDOT | 39,000 | 27,300 | 11,700 |
| Hometown Heroes Park 5K Loop | 137,964 | 116,587 | 21,377 |
| FM270 Boat Ramp | 190,978 | 126,266 | 64,712 |
| Nature Center Pond Bank Erosion | 74,030 | 62,355 | 11,675 |
| Hometown Heroes Park Restroom | 562,784 | 329,854 | 232,930 |
| East Side Dog Park | 27,514 | 24,203 | 3,311 |
| Bay Colony Park - Phase 1 | 1,018,588 | 159,067 | 859,521 |
| Calder Road S of Ervin to Cross Colony Reconstruction | 8,213,755 | 3,249,787 | 4,963,968 |
| Dickinson Ave Reconstruction | 6,439,656 | 5,568,463 | 871,193 |
| Grissom Reconstruction | 938,537 | 755,718 | 182,819 |
| Asphalt Rehabilitation - Package 4 | 4,034,233 | 3,471,115 | 563,118 |
| Asphalt Rehabilitation - Package 5 | 212,236 | 194,393 | 17,843 |
| Material Asphalt - Street Crew | 100,000 | 45,595 | 54,405 |
| FY19 Sidewalk Replacements | 1,324,023 | 1,010,069 | 313,954 |
| Butler/Turner Improvements | 4,114,927 | 2,201,527 | 1,913,400 |
| League City Parkway at Walker Intersection Improvements | 275,567 | 154,148 | 121,419 |
| North Landing Extension | 2,340,508 | 1,463,474 | 877,034 |
| SH3 at League City Parkway Intersection | 173,275 | 92,818 | 80,457 |

| **Project Description (Continued)** | **Authorized Contract** | **Contract Expenditures** | **Remaining Contract** |
|---|---|---|---|
| League City Parkway Improvements at Hobbs | $ 395,218 | $ 302,371 | 92,847 |
| SH3 and FM518 Intersection Improvements | 48,120 | 45,714 | 2,406 |
| Traffic Signal at LC Pkwy/Brittany Lakes/Fennigan | 179,244 | 169,744 | 9,500 |
| Ervin/Hobbs Connector | 5,538,833 | 5,314,260 | 224,573 |
| League City Parkway Corridor Signalization | 247,950 | 100,350 | 147,600 |
| **Totals** | $ $68,487,424 | $ 52,995,116 | $ 15,492,308 |

Construction in progress and remaining commitments under related construction contracts for enterprise fund projects at year end were as follows:

| **Project Description** | **Authorized Contract** | **Contract Expenditures** | **Remaining Contract** |
|---|---|---|---|
| Southeast Service Area Trunks | $ 1,711,217 | $ 1,632,438 | $ 78,779 |
| 36 inch Waterline from SH3 to SSH Booster Station | 1,495,700 | 1,288,975 | 206,725 |
| Replace 42 inch Waterline on SH3 | 10,383,039 | 10,246,917 | 136,122 |
| 24 inch Waterline Stabilization Phase II | 232,197 | 182,216 | 49,981 |
| North Service Area 12 inch Waterline along Grissom Rd | 79,995 | 63,800 | 16,195 |
| West Side Well & Booster Pump Station | 463,873 | 411,379 | 52,494 |
| SSH GST Rehabilitation | 679,970 | 586,397 | 93,573 |
| SEWPP Treatment Improvements | 3,674,841 | 3,672,791 | 2,050 |
| Waterline Upgrades & Replacements | 444,229 | 398,015 | 46,214 |
| Glen Cove | 1,209,275 | 1,070,499 | 138,776 |
| Main Street WL Replacement | 307,250 | 120,002 | 187,248 |
| Dickinson Ave GST & Generator | 166,450 | 97,059 | 69,391 |
| 16 inch Trunk Line - SSH BPS to FM2094 | 1,010,576 | 919,759 | 90,817 |
| New Well and BPS LC Parkway | 465,000 | 132,117 | 332,883 |
| Force Main Upgrade-Bay Colony to Ervin | 1,342,900 | 1,177,925 | 164,975 |
| Countryside #1 LS Improvements | 892,790 | 861,022 | 31,768 |
| Westover Park LS & FM Improvements | 1,733,053 | 1,731,355 | 1,698 |
| Glen Cove FM | 198,515 | 159,368 | 39,147 |
| Sanitary Sewer Rehab FY20 Priority | 133,900 | 63,563 | 70,337 |
| Davis Rd 1&2 LS Improvements | 891,497 | 84,938 | 806,559 |
| Waterford LS 1&2 | 757,842 | 167,381 | 590,461 |
| South Shore Lift Station 1 & 2 Rehab | 93,400 | 57,885 | 35,515 |
| Tuscan Lakes LS #2 | 30,000 | 12,908 | 17,092 |
| Hewitt Road LS Odor Control | 30,000 | 12,896 | 17,104 |
| Grand Bargain - Regional Water and WW Facility | 7,875,586 | 436,444 | 7,439,142 |
| Water System Improvements | 1,386,579 | 1,263,360 | 123,219 |
| **Totals** | $ 46,095,501 | $ 35,257,236 | $ 10,838,265 |

## D. Pension Plans

### Texas Municipal Retirement System

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.
All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | 2019 | 2020 |
|---|---|---|
| Employee deposit rate | 7.00% | 7.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility | | |
| (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 70% of CPI | 70% of CPI |

Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 246 |
| Inactive employees entitled to, but not yet receiving, benefits | 276 |
| Active employees | 556 |
| **Total** | 1078 |

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.05 percent and 14.72 percent in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020 were $5,355,137, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.75% per year |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset alloca- tion portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Global equity | 30.00% | 5.30% |
| Core fixed income | 10.00% | 1.25% |
| Non-core fixed income | 20.00% | 4.14% |
| Real return | 10.00% | 3.85% |
| Real estate | 10.00% | 4.00% |
| Absolute return | 10.00% | 3.48% |
| Private equity | 10.00% | 7.75% |
| | 100.00% | |

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPL

| | Increase (Decrease) | | |
|---|---|---|---|
| | **Total Pension Liability (A)** | **Plan Fiduciary Net Position (B)** | **Net Pension Liability (A) - (B)** |
| Changes for the year: | | | |
| Service cost | $ 5,637,317 | $ - | $ 5,637,317 |
| Interest | 10,330,687 | - | 10,330,687 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | (1,342,090) | - | (1,342,090) |
| Changes of assumptions | 474,720 | - | 474,720 |
| Contributions - employer | - | 5,189,088 | (5,189,088) |
| Contributions - employee | - | 2,414,400 | (2,414,400) |
| Net investment income | - | 18,817,328 | (18,817,328) |
| Benefit payments, including refunds of employee | | | - |
| contributions | (5,446,122) | (5,446,122) | - |
| Administrative expense | - | (106,226) | 106,226 |
| Other changes | - | (3,191) | 3,191 |
| **Net Changes** | 9,654,512 | 20,865,277 | (11,210,765) |
| Balance at December 31, 2018 | 152,951,620 | 121,602,860 | 31,348,760 |
| **Balance at December 31, 2019** | $ 162,606,132 | $ 142,468,137 | $ 20,137,995 |

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | **1% Decrease in Discount Rate (5.75%)** | **Discount Rate (6.75%)** | **1% Increase in Discount Rate (7.75%)** |
|---|---|---|---|
| City's Net Pension Liability | $ 46,096,583 | $ 20,137,995 | $ (850,916) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2020, the City recognized pension expense of $4,928,057.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 325,755 | $ 2,221,324 |
| Changes in actuarial assumptions | 365,455 | - |
| Difference between projected and actual investment earnings | - | 4,301,352 |
| Contributions subsequent to the measurement date | 3,940,178 | - |
| **Total** | $ 4,631,388 | $ 6,522,676 |

$3,940,178 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2021.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended September 30 | Pension Expense |
|---|---|
| 2021 | $ (1,880,460) |
| 2022 | (1,665,126) |
| 2023 | (97,952) |
| 2024 | (2,187,928) |
| **Total** | $ (5,831,466) |

## E. Other Postemployment Benefits

### 1. TMRS Supplemental Death Benefits Fund

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2019 is summarized below:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 186 |
| Inactive employees entitled to, but not yet receiving, benefits | 66 |
| Active employees | 556 |
| **Total** | 808 |

Total OPEB Liability

The City's total OPEB liability of $1,421,800 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 2.75%* |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through thePTF and accounted for under reporting requirements under GASB 68. |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability

| | **Total OPEB Liability** |
|---|---|
| Changes for the year: | |
| Service cost | $ 62,062 |
| Interest | 42,581 |
| Differences between expected and actual experience | (29,820) |
| Changes of assumptions | 235,443 |
| Benefit payments* | (10,344) |
| **Net Changes** | 299,922 |
| Beginning Balance | 1,121,878 |
| **Ending Balance** | $ 1,421,800 |

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

The discount rate decreased from 3.71 percent as of December 31, 2018 to 2.75 percent as of December 31, 2019. There were no other changes of assumption or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | **1% Decrease in Discount Rate (1.75%)** | **Discount Rate (2.75%)** | **1% Increase in Discount Rate (3.75%)** |
|---|---|---|---|
| City's Total OPEB Liability | $ 1,738,611 | $ 1,421,800 | $ 1,176,349 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of $134,097. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
|---|---|---|
| Differences between expected and actural experience | $ - | $ 54,041 |
| Changes in actuarial assumptions | 243,631 | 58,365 |
| Contributions subsequent to the measurement date | 8,030 | - |
| **Total** | $ 251,661 | $ 112,406 |

$8,030 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2021.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended September 30 | | OPEB Expense |
|---|---|---|
| 2021 | $ | 29,454 |
| 2022 | | 29,454 |
| 2023 | | 29,291 |
| 2024 | | 13,452 |
| 2025 | | 29,574 |
| **Total** | $ | 131,225 |

## 2. Postemployment Healthcare Plan

<u>Plan Description</u>

The City administers a single-employer defined benefit OPEB plan. The Program offers medical and dental insurance benefits to eligible retirees and their spouses. Retiree medical coverage levels for retirees are the same as coverage provided to active City employees. Upon the death of the retiree, the spouse is eligible for coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA). The Program has no plan assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 75.

<u>Benefits Provided</u>

Retiree medical coverage includes one medical plan option, the mid-plan, which is the same mid-plan coverage provided to active City employees in accordance with the terms and conditions of the Program. Retirees may purchase retiree health care coverage for eligible spouses and dependents at their own expense. Surviving spouses and dependents of deceased retired members may continue retiree healthcare coverage for up to 36 months through COBRA. Retirees are eligible for dental and vision coverage at 100 percent of cost. Retirees are required to enroll in Medicare once eligible (age 65). The City does not provide Medicare supplement health benefits coverage after the date that the person becomes eligible for Medicare benefits.

Employees are eligible for TMRS retirement with five years of service and age 60 or with 20 years of service and any age. If an employee retires at age 60 or older, with 20 years of TMRS experience and the most recent five years with League City, the City currently will pay the retiree (not dependent) cost of continued coverage at 100% until the age 65. Employees eligible to retire under TMRS as a disability retiree, if they have worked with the City for a minimum of five years and have at least ten years of combined service with all municipalities, are eligible for a portion of their health insurance based on their age.

The following table provides a summary of the number of participants in the plan as of September 30, 2020:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 17 |
| Inactive employees entitled to, but not yet receiving, benefits | - |
| Active employees | 537 |
| **Total** | 554 |

Total OPEB Liability

The City's total OPEB liability of $9,381,457 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 2.75%* |
| Actuarial cost method | Individual entry-age |
| Demographic assumptions | Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the TMRS. |
| Mortality | For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements. |
| Healthcare trend rates | Initial rate of 7.00% declining to an ultimate rate of 4.15% after 14 years. |
| Participation rates | 0% for pre-50 retirees with any years of service;<br>15% for 50-64 years of age retirees with less than 20 years of service;<br>25% for 50-54 years of age retirees with more than 20 years of service;<br>65% for 55-59 years of age retirees with more than 20 years of service;<br>90% for eligible retirees that are at least 60 years old at retirement with more than 20 years of service. |

* The discount rate changed from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|---|
| Changes for the year: | |
| Service cost | $ 574,208 |
| Interest | 329,672 |
| Changes of benefit terms | 670,608 |
| Difference between expected and actual experience | (888,289) |
| Changes of assumptions | 193,901 |
| Benefit payments | (195,141) |
| **Net Changes** | 684,959 |
| Beginning balance | 8,696,498 |
| **Ending Balance** | $ 9,381,457 |

Change in assumption reflected a change in the discount rate from 3.71 percent as of December 31, 2018 to 2.75 percent as of December 31, 2019.

The change in benefit terms reflects the change in the service requirement for City subsidy eligibility from 20 years of service with the City to 20 years of service with TMRS, with the most recent five years with the City.

Sensitivity of Total OPEB Liability to the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the Program's total OPEB liability, calculated using a discount rate of 2.75%, as well as what the Program's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

| | 1% Decrease in Discount Rate (1.75%) | Discount Rate (2.75%) | 1% Increase in Discount Rate (3.75%) |
|---|---|---|---|
| City's Total OPEB Liability | $ 10,442,768 | $ 9,381,457 | $ 8,430,454 |

Sensitivity of Total OPEB Liability to the Healthcare Costs Trend Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the Program's total OPEB liability, calculated using the assumed trend rates, as well as what the Program's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| City's Total OPEB Liability | $ 8,220,112 | $ 9,381,457 | $ 10,769,269 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2020, the City recognized OPEB expense of $1,508,451. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in actuarial assumptions | $ 487,111 | $ 320,716 |
| Differences between expected and actural experience | 70,072 | 778,778 |
| Contributions subsequent to the measurement date | 164,600 | - |
| **Total** | $ 721,783 | $ 1,099,494 |

$164,600 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2021.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended September 30 | OPEB Expense |
|---|---|
| 2021 | $ (66,037) |
| 2022 | (66,037) |
| 2023 | (66,037) |
| 2024 | (66,037) |
| 2025 | (66,037) |
| Thereafter | (212,126) |
| **Total** | $ (542,311) |

**3. Aggregate Total OPEB Expenses**

The City recognized aggregate total OPEB expenses of $1,642,548 during the fiscal year ended September 30, 2020 related to the City's TMRS SDBF and the Program OPEB benefit plans.

**F. Healthcare Coverage**

During 2016, the City began to provide employees with traditional prescription and health care insurance that covers hospitalization and major medical expenses within specified limits under a plan that is self-funded by the City and administered by a third-party administrator. The City pays the administrator a monthly fixed fee for various claim administration services on a per enrolled employee basis.

The City pays all claims. The third-party administrator submits monthly check registers for all processed claims. The City issues payment to the plan administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. The premiums for these policies are billed monthly by the third-party administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2020 was estimated by third-party administrators. It is based on the requirements of GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in an internal service fund.

Changes in health claims for the years ended September 30, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Health claim liability, beginning of year | $ 706,499 | $ 690,053 |
| Claims and changes in estimates | 3,443,545 | 4,585,627 |
| Claim payments | (4,820,170) | (5,982,179) |
| **Health claim liability, end of year** | $ 670,126 | $ 706,499 |

## G. Contracts

Summaries of the City's significant contracts are as follows:

### 1. Municipal Utility Districts

The City has entered into utility agreements with several MUDs whose boundaries overlap the boundaries of the City. The MUDs construct water, sanitary sewer, and drainage facilities to serve the areas within the MUDs and issue bonds to finance such facilities. The MUDs release their security interests in the facilities to the City, and the City operates and maintains the systems.

### 2. Galveston County Water Control and Improvement District No. One

The City entered into an agreement dated March 10, 1983 with Galveston County Water Control and Improvement District No. One (the "District") providing for an inter-connect to be built between the City and the District by the Gulf Coast Water Authority (GCWA). The City agreed to buy one million gallons of water per day on a take-or-pay basis. Under a revised water supply agreement effective January 1, 1987, the annual volume of water to be paid for by the City on a take-or-pay basis was reduced to a minimum of 150,000 gallons per day, to be adjusted annually to an amount equal to the prior year's average usage, but not to exceed one million gallons per day. The cost to the City will vary depending on the cost to the District to fulfill its obligation. On December 8, 2009, the water supply agreement was revised to adjust the price and the obligation for delivery of water. GCWA shall sell and deliver 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided GCWA has excess water available, or for emergency use only.

### 3. Gulf Coast Water Authority – Water System Improvements

The City entered into an agreement with the GCWA on September 8, 1998 providing for the construction of water system improvements and issuance of GCWA contract bonds to finance the construction. The water system improvement included a transmission system to deliver 2.45 million gallons per day to the City from the Thomas Mackey Water Treatment Plant. The City is considered the owner of the assets and, as provided in the agreement, makes periodic payments to GCWA to service the debt.

### 4. Gulf Coast Water Authority – Water Capacity Contract

The City has entered into a long-term cost sharing contract with the GCWA to finance the expansion of the Houston Southeast Water Purification Plant. This twice amended water supply contract provides that GCWA reserve treatment and distribution capacity of 22.5 million gallons per day for the City.

**H. Tax Abatements and Economic Incentives**

The City will consider entering into economic development agreements to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales and hotel occupancy tax, and enhance the property tax base and economic vitality of the City. These programs may include tax abatement, property tax and/or sales tax rebates, incentive payments, and/or reductions in permits and fees. The City's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code Chapter 311 (Tax Increment Financing Act), and 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code.

Recipients may be eligible to receive economic assistance based upon the number of jobs to be created and/or retained, economic impact, fiscal impact, and community impact of the proposed project. Recipients receiving assistance generally commit to creating and/or retaining jobs, building or remodeling real property and related infrastructure, demolishing and redeveloping outdated properties, expanding operations, renewing facility leases, increasing the City's tax base, and/or bringing targeted businesses to the City. Agreements generally contain performance criteria which are required to be attained before the payment of any public tax dollars may be made. Furthermore, the same economic development agreements may contain recapture provisions that require repayment of public funds, or termination of the agreement, if the recipients do not meet the required provisions of the agreement.

The City has three categories of economic development agreements:

- Tax Abatements – Tax abatements under Chapter 312 of the Texas Code allow the City to designate tax reinvestment zones and negotiate tax abatements with applicants for both new facilities and structures and the expansion or modernization of existing facilities or structures. These abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. The City does not currently have any tax abatements; so property taxes abated under this program were $0 in fiscal year 2020.

- General Economic Development – The City may consider entering into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may include rebates for a portion of the increased property taxes and/or sales tax received by the City, fee reductions such as utility charges or building inspection fees, and/or payments to offset the cost of targeted infrastructure, full-time primary jobs, full-time primary job training, site improvements, other related improvements, commercial land, commercial buildings, commercial equipment, commercial facilities, and/or other expenditures. For fiscal year 2020, the City rebated $118,569 in property taxes, $244,707 in sales taxes, and made incentive payments of $90,000 under these agreements.

- Tax Increment Financing – The City has adopted three Tax Increment Financing zones (TIFs) under Chapter 311 of the Texas Tax Code. The City will consider entering into economic development and infrastructure reimbursement agreements which earmark TIF revenues for payment to developers and represent obligations over the life of the TIF or until all terms of the agreements have been met. These obligations are more fully described in Note 1. Additionally, the City may consider entering into general economic development agreements under Chapter 380 of the Texas Local Government Code which are funded with TIF resources. The City made $3,497,763 in payments for TIF obligations in property tax rebates from general TIF resources in fiscal year 2020.

**I. Subsequent Events**

On November 18, 2020, the City issued General Obligation Refunding, Series 2020 (the "Bonds") in the amount of $36,330,000. The Bonds mature in varying amounts from 2022 to 2033 with a coupon rate of three to five percent. Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding obligations to achieve debt savings and to pay the cost of issuance associated with the sale of the Bonds.

***REQUIRED SUPPLEMENTARY INFORMATION***

# CITY OF LEAGUE CITY, TEXAS

***SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)***

***GENERAL FUND***

**For the Year Ended September 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original Budget | Budget as Amended | Actual | Positive (Negative) |
| **Revenues** | | | | |
| Ad valorem taxes | $ 33,211,197 | 33,001,543 | $ 32,172,823 | $ (828,720) |
| Sales taxes | 20,469,518 | 20,469,518 | 21,554,463 | 1,084,945 |
| Franchise fees | 5,712,458 | 5,712,458 | 5,476,389 | (236,069) |
| Licenses and permits | 3,833,254 | 3,833,254 | 3,161,640 | (671,614) |
| Fines and forfeitures | 1,587,490 | 1,587,490 | 1,057,805 | (529,685) |
| Charges for services | 8,975,061 | 8,975,061 | 9,541,657 | 566,596 |
| Other taxes | 405,697 | 405,697 | 316,698 | (88,999) |
| Investment earnings | 745,000 | 745,000 | 475,797 | (269,203) |
| Intergovernmental | 546,093 | 546,093 | 826,504 | 280,411 |
| Miscellaneous income | 961,228 | 961,228 | 955,263 | (5,965) |
| Contributions | - | - | 23,356 | 23,356 |
| **Total Revenues** | 76,446,996 | 76,237,342 | 75,562,395 | (674,947) |
| **Expenditures** | | | | |
| Current: | | | | |
| General government: | | | | |
| Economic development | 391,395 | 402,211 | 402,210 | 1 |
| Budget office | 400,420 | 407,908 | 387,166 | 20,742 |
| City secretary | 430,643 | 432,154 | 392,236 | 39,918 |
| City manager | 721,355 | 731,156 | 731,155 | 1 |
| Information technology | 2,924,825 | 3,175,351 | 2,958,526 | 216,825 |
| City auditor | 127,815 | 151,409 | 130,827 | 20,582 |
| City attorney | 573,980 | 579,394 | 571,416 | 7,978 |
| Accounting | 1,870,503 | 1,685,212 | 1,644,881 | 40,331 |
| Mayor and City council | 151,650 | 151,650 | 120,936 | 30,714 |
| Municipal court | 869,343 | 881,024 | 801,933 | 79,091 |
| Human resources | 905,342 | 925,874 | 875,042 | 50,832 |
| Facilities maintenance | 1,648,913 | 1,656,044 | 1,595,221 | 60,823 |
| Purchasing | 456,628 | 439,134 | 327,212 | 111,922 |
| Communications | 640,100 | 724,255 | 698,793 | 25,462 |
| Nondepartmental | 2,568,018 | 2,146,320 | 1,996,159 | 150,161 |
| **Total General Government** | 14,680,930 | 14,489,096 | 13,633,713 | 855,383 |
| Public safety: | | | | |
| Emergency management | 216,020 | 175,928 | 175,928 | - |
| Police | 20,499,737 | 20,744,481 | 16,833,178 | 3,911,303 |
| Animal control | 1,008,214 | 1,021,717 | 1,021,716 | 1 |
| Fire marshal | 811,327 | 824,084 | 801,345 | 22,739 |
| Fire | 2,932,274 | 2,825,984 | 2,748,446 | 77,538 |
| EMS | 3,952,837 | 4,184,322 | 4,184,322 | - |
| **Total Public Safety** | 29,420,409 | 29,776,516 | 25,764,935 | 4,011,581 |

# City of League City, Texas

## *SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)*

## *GENERAL FUND*

**For the Year Ended September 30, 2020**

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original Budget | Budget as Amended | Actual | Positive (Negative) |
| Public works: | | | | |
| Administration | $ 581,389 | $ 519,795 | $ 502,018 | $ 17,777 |
| Project management | 1,321,445 | 1,511,006 | 1,443,085 | 67,921 |
| Engineering | 1,361,185 | 1,888,661 | 1,434,327 | 454,334 |
| Street and traffic | 7,384,178 | 7,070,760 | 6,869,673 | 201,087 |
| Solid waste | 6,427,128 | 6,506,137 | 6,506,137 | - |
| **Total Public Works** | 17,075,325 | 17,496,359 | 16,755,240 | 741,119 |
| Community services: | | | | |
| Library | 2,302,097 | 2,331,309 | 2,183,126 | 148,183 |
| Parks recreation | 959,773 | 967,924 | 584,788 | 383,136 |
| Civic center operations | 618,309 | 596,326 | 459,172 | 137,154 |
| Neighborhood services | 520,768 | 560,974 | 560,973 | 1 |
| Parks planning | 1,154,929 | 1,176,424 | 1,100,863 | 75,561 |
| Building | 1,158,884 | 1,199,522 | 1,199,521 | 1 |
| Parks operation | 2,269,664 | 2,296,316 | 2,260,056 | 36,260 |
| **Total Community Services** | 8,984,424 | 9,128,795 | 8,348,499 | 780,296 |
| Capital outlay | 729,484 | 1,068,194 | 850,871 | 217,323 |
| **Total Expenditures** | 70,890,572 | 71,958,960 | 65,353,258 | 6,605,702 |
| **Excess of Revenues Over Expenditures** | 5,556,424 | 4,278,382 | 10,209,137 | 5,930,755 |
| <u>**Other Financing Sources (Uses)**</u> | | | | |
| Transfers in | 3,484,513 | 3,484,513 | 3,494,513 | 10,000 |
| Transfers (out) | (9,026,825) | (14,191,825) | (14,191,825) | - |
| Sale of capital assets | - | - | 66,312 | 66,312 |
| **Total Other Financing (Uses)** | (5,542,312) | (10,707,312) | (10,631,000) | 76,312 |
| **Net Change in Fund Balance** | $ 14,112 | $ (6,428,930) | (421,863) | $ 6,007,067 |
| Beginning fund balance | | | 26,165,023 | |
| **Ending Fund Balance** | | | $ 25,743,160 | |

Notes to Required Supplementary Information (RSI):

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

# City of League City, Texas

## *SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

## *TEXAS MUNICIPAL RETIREMENT SYSTEM*

**For the Year Ended September 30, 2020**

| | Measurement Year* | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| **Total Pension Liability** | | | | |
| Service cost | $ 4,085,930 | $ 4,766,977 | $ 4,864,613 | $ 5,157,392 |
| Interest (on the total pension liability) | 7,738,609 | 8,244,037 | 8,589,498 | 9,094,253 |
| Changes of benefit terms | - | - | - | - |
| Difference between expected and actual experience | (1,232,945) | 606,671 | (1,524,205) | 904,184 |
| Change of assumptions | - | 92,710 | - | - |
| Benefit payments, including refunds of employee contributions | (3,158,114) | (4,265,297) | (4,293,442) | (4,903,446) |
| **Net Change in Total Pension Liability** | 7,433,480 | 9,445,098 | 7,636,464 | 10,252,383 |
| Beginning total pension liability | 110,087,652 | 117,521,132 | 126,966,230 | 134,602,694 |
| **Ending Total Pension Liability** | $ 117,521,132 | $ 126,966,230 | $ 134,602,694 | $ 144,855,077 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - employer | $ 3,962,525 | $ 4,397,765 | $ 4,375,883 | $ 4,818,263 |
| Contributions - employee | 1,938,343 | 2,085,870 | 2,061,277 | 2,191,544 |
| Net investment income | 5,037,807 | 141,338 | 6,628,183 | 14,801,671 |
| Benefit payments, including refunds of employee contributions | (3,158,114) | (4,265,297) | (4,293,442) | (4,903,446) |
| Administrative expense | (52,589) | (86,078) | (74,832) | (76,665) |
| Other | (4,323) | (4,251) | (4,035) | (3,885) |
| **Net Change in Plan Fiduciary Net Position** | 7,723,649 | 2,269,347 | 8,693,034 | 16,827,482 |
| Beginning plan fiduciary net position | 88,049,960 | 95,773,609 | 98,042,956 | 106,735,990 |
| **Ending Plan Fiduciary Net Position** | $ 95,773,609 | $ 98,042,956 | $ 106,735,990 | $ 123,563,472 |
| **Net Pension Liability** | $ 21,747,523 | $ 28,923,274 | $ 27,866,704 | $ 21,291,605 |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 81.49% | 77.22% | 79.30% | 85.30% |
| **Covered Payroll** | $ 27,690,617 | $ 29,774,998 | $ 29,446,809 | $ 31,275,877 |
| **Net Pension Liability as a Percentage of Covered Payroll** | 78.54% | 97.14% | 94.63% | 68.08% |

*Only six years of information are currently available. The City will build this schedule over the next four-year period.

| Measurement Year* | |
| --- | --- |
| 2018 | 2019 |
| $ 5,288,820 | $ 5,637,317 |
| 9,776,168 | 10,330,687 |
| - | - |
| (1,633,715) | (1,342,090) |
| - | 474,720 |
| (5,334,730) | (5,446,122) |
| 8,096,543 | 9,654,512 |
| 144,855,077 | 152,951,620 |
| $ 152,951,620 | $ 162,606,132 |
| $ 4,888,629 | $ 5,189,088 |
| 2,264,908 | 2,414,400 |
| (3,704,148) | 18,817,328 |
| (5,334,730) | (5,446,122) |
| (71,534) | (106,226) |
| (3,737) | (3,191) |
| (1,960,612) | 20,865,277 |
| 123,563,472 | 121,602,860 |
| $ 121,602,860 | $ 142,468,137 |
| $ 31,348,760 | $ 20,137,995 |
| 79.50% | 87.62% |
| $ 32,347,526 | $ 34,479,004 |
| 96.91% | 58.41% |

# CITY OF LEAGUE CITY, TEXAS

***SCHEDULE OF CONTRIBUTIONS***

***TEXAS MUNICIPAL RETIREMENT SYSTEM***

**For the Year Ended September 30, 2020**

| | Fiscal Year* | | | |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Actuarially determined contribution | $ 4,154,127 | $ 4,373,626 | $ 4,717,212 | $ 4,833,238 |
| Contributions in relation to the actuarially determined contribution | 4,154,127 | 4,373,626 | 4,717,212 | 4,833,238 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Covered payroll | $ 28,317,437 | $ 29,183,791 | $ 30,922,708 | $ 31,833,706 |
| Contributions as a percentage of covered payroll | 14.67% | 14.99% | 15.25% | 15.18% |

*Only six years of information are currently available. The City will build this schedule over the next four-year period.

**Notes to Required Supplementary Information:**

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 26 years |
| Asset valuation method | 10 year smoothed market; 12% soft corridor |
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Investment rate of return | 6.75% |
| Retirement age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018. |
| Mortality | Post-retirement: 2019 Muncipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.<br>Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP. |

Other Information:

There were no benefit changes during the year.

| Fiscal Year* | | | |
| --- | --- | --- | --- |
| 2019 | | 2020 | |
| $ | 5,101,882 | $ | 5,355,137 |
| | 5,101,882 | | 5,355,137 |
| $ | - | $ | - |
| $ | 33,864,518 | $ | 36,169,235 |
| | 15.07% | | 14.81% |

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# City of League City, Texas

## *SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS*

## *TEXAS MUNICIPAL RETIREMENT SYSTEM*

**For the Year Ended September 30, 2020**

| | Measurement Year* | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| **Total OPEB Liability** | | | |
| Service cost | $ 56,297 | $ 64,695 | $ 62,062 |
| Interest (on the total OPEB liability) | 37,657 | 39,230 | 42,581 |
| Differences between expected and actual experience | - | (44,028) | (29,820) |
| Change of assumptions | 97,169 | (87,620) | 235,443 |
| Benefit payments** | (6,255) | (6,470) | (10,344) |
| **Net Change in Total OPEB Liability** | 184,868 | (34,193) | 299,922 |
| Beginning total OPEB liability | 971,203 | 1,156,071 | 1,121,878 |
| **Ending Total OPEB Liability** | $ 1,156,071 | $ 1,121,878 | $ 1,421,800 |
| **Covered Payroll** | $ 31,275,877 | $ 32,347,526 | $ 34,479,004 |
| **Total OPEB Liability as a Percentage of Covered Payroll** | 3.70% | 3.47% | 4.12% |

*Only three years of information is currently available. The City will build this schedule over the next seven-year period.
**Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

**Notes to Required Supplementary Information:**

Changes in Assumptions

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period of December 31, 2014 to December 31, 2018.

Changes in Benefits

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 2.75%* |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68. |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-years set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

*The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

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# City of League City, Texas

## *SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS*

## *RETIREE MEDICAL PROGRAM*

**For the Year Ended September 30, 2020**

| | Measurement Year* | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| **Total OPEB Liability** | | | |
| Service cost | $ 436,976 | $ 503,159 | $ 574,208 |
| Interest (on the total OPEB liability) | 287,306 | 284,533 | 329,672 |
| Change in benefit terms | - | - | 670,608 |
| Difference between expected and actual experience | - | 91,976 | (888,289) |
| Changes of assumptions | 493,341 | (420,966) | 193,901 |
| Benefit payments | (177,171) | (213,583) | (195,141) |
| **Net Change in Total OPEB Liability** | 1,040,452 | 245,119 | 684,959 |
| Beginning total OPEB liability | 7,410,927 | 8,451,379 | 8,696,498 |
| **Ending Total OPEB Liability** | $ 8,451,379 | $ 8,696,498 | $ 9,381,457 |
| **Covered Payroll** | $ 31,275,877 | $ 32,347,526 | $ 34,478,994 |
| **Total OPEB Liability as a Percentage of Covered Payroll** | 27.02% | 26.88% | 27.21% |

*Only three years of information are currently available. The City will build this schedule over the next seven-year period.

**Notes to Required Supplementary Information:**

Changes of Assumptions

Changes of assumptions reflect a change in the discount rate from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

Changes in Benefits

Changes in benefit terms reflect change in the service requirement for City subsidy elgibility from 20 years of service with the City to 20 years of service with TMRS, with the most recent five years with the City.

## APPENDIX C

## AUDITED FINANCIAL STATEMENT OF THE GULF COAST WATER AUTHORITY

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# REPORT OF INDEPENDENT AUDITORS

To the Audit Committee and Board of Directors
Gulf Coast Water Authority
Texas City, Texas

## Report on the Financial Statements

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Gulf Coast Water Authority (the "Authority") as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulf Coast Water Authority, as of August 31, 2020, and the respective changes in financial position and the results of cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Audit Committee and Board of Directors
Gulf Coast Water Authority

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required other pension and other post-employment benefit system supplementary information, as listed in the table of contents, 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 Authority's basic financial statements. The introductory, statistical, and supplementary information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information in the other supplementary section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the other supplementary sections is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 5, 2021

The management of Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

## FINANCIAL HIGHLIGHTS

- The Authority's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $158,233,856. Of this amount, $89,866,949 represents net investment in capital assets; $5,268,075 is restricted net position and the remaining $63,098,832 represents unrestricted net position.

- The Authority's total net position increased by $10,644,995 before the effect of a prior period adjustment. Net position at the end of the prior year was $149,842,265, which was decreased by a prior period adjustment in the amount of $2,253,404, resulting in an ending net position of $158,233,856 at August 31, 2020.

- Operating expenses for the Authority were $46,411,597 and were less than operating revenues of $54,943,327 by $8,531,730. Non-operating revenues for the Authority were less than non-operating expenses by $26,735.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements which consist of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report includes other supplementary information in addition to the basic financial statements.

The statement of net position presents as of a specific date information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Since the Authority follows enterprise fund accounting and reporting requirements, there is a statement of cash flows included as part of the basic financial statements. The accompanying notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements.

## FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $158,233,856 at the close of the most recent fiscal year.

***Net Position (with comparative totals for August 31, 2019)***

| | 2020 | 2019 (Restated) | Increase / (Decrease) $ | Increase / (Decrease) % |
|---|---|---|---|---|
| Current and other assets | $ 85,511,401 | $ 83,085,078 | $ 2,426,323 | 2.9% |
| Capital assets | 114,928,498 | 108,919,963 | 6,008,535 | 5.5% |
| Total assets | 200,439,899 | 192,005,041 | 8,434,858 | 4.4% |
| Total deferred outflows of resources | 549,301 | 2,015,587 | (1,466,286) | -72.7% |
| Current liabilities | 15,520,917 | 11,400,596 | 4,120,321 | 36.1% |
| Noncurrent liabilities | 26,251,461 | 34,598,957 | (8,347,496) | -24.1% |
| Total liabilities | 41,772,378 | 45,999,553 | (4,227,175) | -9.2% |
| Total deferred inflows of resources | 982,966 | 432,214 | 550,752 | 127.4% |
| Net Position: | | | | |
| Net Investment in capital assets | 89,866,949 | 81,101,796 | 8,765,153 | 10.8% |
| Restricted: | | | | |
| Debt Service | 4,587,300 | 4,627,707 | (40,407) | -0.9% |
| Construction | 680,775 | 2,650,000 | (1,969,225) | |
| Unrestricted | 63,098,832 | 59,209,358 | 3,889,474 | 6.6% |
| Total Net Position | $ 158,233,856 | $ 147,588,861 | $ 10,644,995 | 7.2% |

- Capital assets, net of depreciation increased by approximately $6.0 million, or 5.5%, from the prior year due to capital outlay of approximately $3.7 million in the Texas City Industrial Division, $1.2 million in the Water Treatment Plant, $3.4 million in the Canal Division, and $4.8 million in Chocolate Bayou. Depreciable capital assets increased by $2.0 million due to completed projects being transferred from construction in progress and construction in progress increased by $12.1 million from the prior year.
- Current liabilities increased by $4.1 million or 36.1% due primarily to an increase in accounts payable and accrued liabilities, related to ongoing projects at August 31, 2020.
- Noncurrent liabilities decreased by approximately $8.3 million, or 24.1%, from the prior year due to a decrease of outstanding bonds and related premiums of $6.2 million in addition to a decrease in the net pension liability of $2.1 million.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

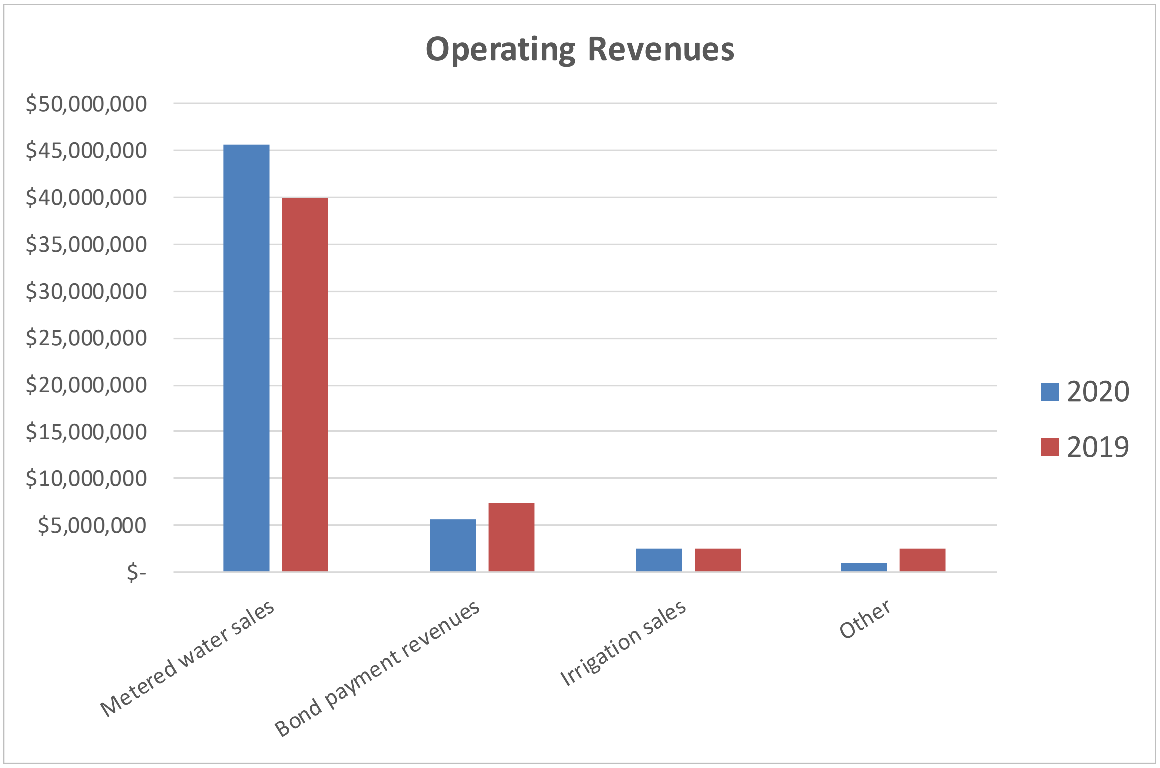
The Statement of Revenues, Expenses and Changes in Net Position measures how well annual costs are covered by fees and charges. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance, and other costs while providing sufficient reserves annually from fees and charges since the Authority does not levy or collect any tax revenue.

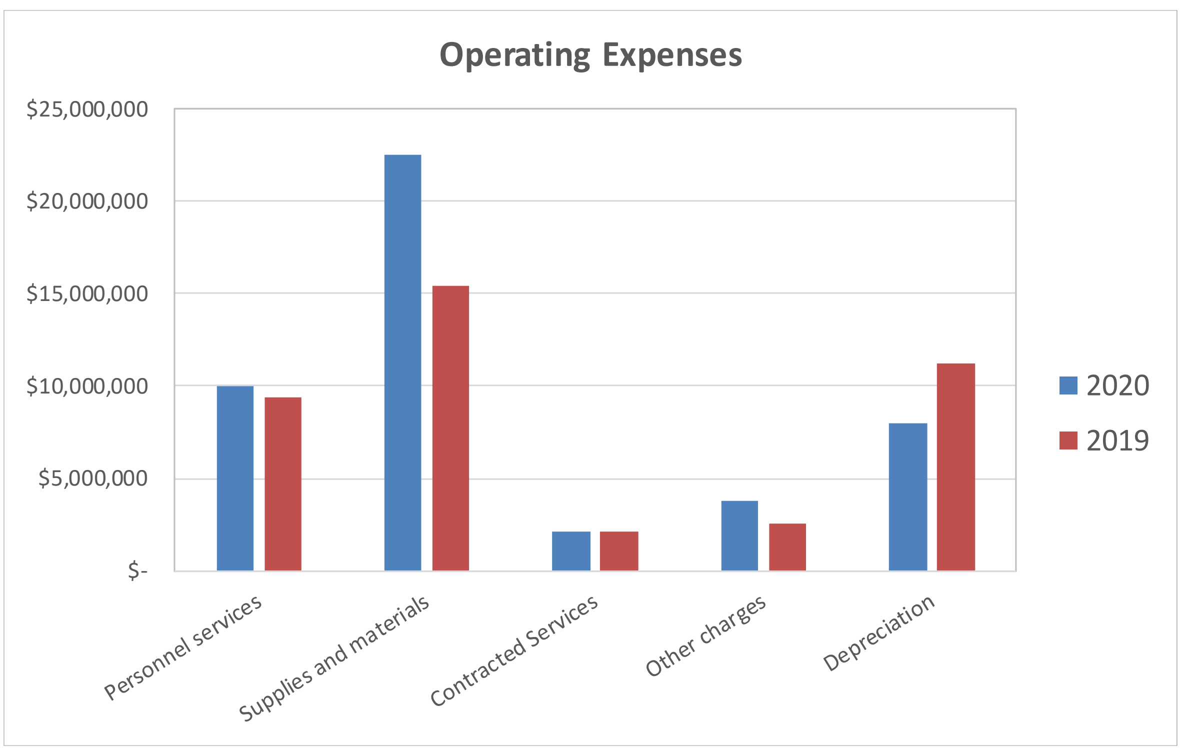
### Changes in Net Position- Year Ended August 31, 2020
### (With comparative totals for year ended August 31, 2019)

| | | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2020 | 2019 | $ | % |
| Operating Revenues: | | | | |
| Metered water sales | $ 45,677,779 | $ 39,863,810 | $ 5,813,969 | 14.6% |
| Bond payment revenue | 5,683,620 | 7,335,248 | (1,651,628) | -22.5% |
| Irrigation sales | 2,593,058 | 2,474,155 | 118,903 | 4.8% |
| Other | 988,870 | 2,590,576 | (1,601,706) | -61.8% |
| Total operating revenues | 54,943,327 | 52,263,789 | 2,679,538 | 5.1% |
| Expenses: | | | | |
| Personnel services | 9,969,928 | 9,421,184 | 548,744 | 5.8% |
| Supplies and materials | 22,513,296 | 15,456,251 | 7,057,045 | 45.7% |
| Contracted services | 2,090,848 | 2,099,216 | (8,368) | -0.4% |
| Other charges | 3,812,115 | 2,537,911 | 1,274,204 | 50.2% |
| Depreciation | 8,025,410 | 11,258,769 | (3,233,359) | -28.7% |
| Total expenses | 46,411,597 | 40,773,331 | 5,638,266 | 13.8% |
| Operating income (loss) | 8,531,730 | 11,490,458 | (2,958,728) | |
| Non-operating revenues (expenses) | (26,735) | 203,304 | (230,039) | -113.2% |
| Income (loss) before capital contributions and transfers | 8,504,995 | 11,693,762 | (3,188,767) | -27.3% |
| Capital contributions | 2,140,000 | 2,650,000 | (510,000) | -19.2% |
| Change in Net Position | 10,644,995 | 14,343,762 | (3,698,767) | -25.8% |
| Beginning Net Position | 149,842,265 | 154,750,903 | (4,908,638) | -3.2% |
| Prior period adjustment | (2,253,404) | (19,252,400) | 16,998,996 | |
| Ending Net Position | $ 158,233,856 | $ 149,842,265 | $ 8,391,591 | 5.6% |

- Metered water sales increased by approximately $5.8 million or 14.6%, due to 2019 having unusually large recharge costs from the City of Houston related to "true-up" capital expenses from the SEWPP.
- Other revenues decreased by approximately $1.6 million due to prior year reimbursable costs in the amount of $1.5 million from the Texas Department of Transportation for projects completed by the Authority.
- Personnel services increased by approximately $0.5 million due to an increase in personnel costs and a decrease pension expense adjustment for costs related to the net pension liability (asset).
- Supplies and materials increased by approximately $7.1 million due to an increase in contract water costs from the Southeast Water Purification Plant-League City and Pearland divisions.
- Depreciation expense decreased by approximately $3.2 million or 28.7%, due to numerous large capital assets reaching full depreciation at the end of the prior fiscal year.

The following charts illustrate a two-year comparison of the Authority's Operating Revenues and Operating Expenses, respectively.



## CAPITAL ASSETS AND LONG-TERM DEBT

### CAPITAL ASSETS

The Authority's capital assets totaled $114,928,498 as of August 31, 2020. These capital assets include land; construction in progress; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; and infrastructure. The total net increase in the Authority's capital assets for the current fiscal year was $6.0, or 5.5%.

| | 2020 | 2019 (Restated) | Increase/(Decrease) $ | Increase/(Decrease) % |
|---|---|---|---|---|
| Land | $ 1,959,587 | $ 1,959,587 | $ - | - |
| Construction in progress | 40,100,556 | 28,006,176 | 12,094,380 | 43.2% |
| Infrastructure | 231,992,976 | 231,501,290 | 491,686 | 0.2% |
| Buildings | 5,154,162 | 3,950,376 | 1,203,786 | 30.5% |
| Plant and equipment | 8,159,622 | 7,854,177 | 305,445 | 3.9% |
| Less accumulated depreciation | (172,438,405) | (164,351,642) | (8,086,763) | 4.9% |
| **Total** | $ 114,928,498 | $ 108,919,964 | $ 6,008,534 | 5.5% |

Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

### LONG-TERM DEBT

At the end of the current fiscal year, the Authority had long-term debt outstanding of $31.0 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

| | 2020 | 2019 | Increase/(Decrease) $ | Increase/(Decrease) % |
|---|---|---|---|---|
| Revenue bonds | $ 30,598,000 | $ 36,618,000 | $ (6,020,000) | -16.4% |
| Bond premiums | 354,352 | 535,318 | (180,966) | -33.8% |
| **Totals** | $ 30,952,352 | $ 37,153,318 | $ (6,200,966) | -16.7% |

Additional information on the Authority's long-term debt can be found in Note 4 to the financial statements.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, 3630 FM 1765, Texas City, Texas 77591.

GCWA

Gulf Coast Water Authority

# BASIC FINANCIAL STATEMENTS

# GULF COAST WATER AUTHORITY
***STATEMENT OF NET POSITION***
***August 31, 2020***

| | |
|---|---|
| **Assets** | |
| **Current Assets:** | |
| Cash and cash equivalents | $ 4,985,880 |
| Investments | 58,575,921 |
| Accounts receivable | 10,302,889 |
| Prepaid items | 568,567 |
| Restricted: | |
| Investments | 8,549,152 |
| **Total current assets** | 82,982,409 |
| | |
| **Noncurrent assets:** | |
| Accounts receivable - due in more than one year | 2,528,992 |
| Capital assets not being depreciated | 42,060,143 |
| Capital assets, net of accumulated depreciation | 72,868,355 |
| **Total noncurrent assets** | 117,457,490 |
| **Total assets** | 200,439,899 |
| | |
| **Deferred Outflows of Resources** | |
| Deferred charge on refunding | 47,249 |
| Pension related | 456,303 |
| OPEB related | 45,749 |
| **Total deferred outflows of resources** | 549,301 |
| | |
| **Liabilities** | |
| **Current liabilities:** | |
| Accounts payable and accrued liabilities | 8,578,593 |
| Accrued wages payable | 215,018 |
| Accrued interest payable | 47,657 |
| Bonds payable - due within one year | 6,230,000 |
| Compensated absences - due within one year | 449,649 |
| **Total current liabilities** | 15,520,917 |
| | |
| **Noncurrent liabilities:** | |
| Due in more than one year: | |
| Bonds payable | 24,722,352 |
| Compensated absences | 899,298 |
| Net pension liability | 455,365 |
| Net OPEB liability | 174,446 |
| **Total noncurrent liabilities** | 26,251,461 |
| **Total liabilities** | 41,772,378 |
| | |
| **Deferred Inflows of Resources** | |
| Deferred charge on refunding | 122,462 |
| Pension related | 844,292 |
| OPEB related | 16,212 |
| **Total deferred inflows of resources** | 982,966 |
| | |
| **Net Position** | |
| Net investment in capital assets | 89,866,949 |
| Restricted for: | |
| Debt service | 4,587,300 |
| Construction | 680,775 |
| Unrestricted | 63,098,832 |
| **Total Net Position** | $ 158,233,856 |

**GULF COAST WATER AUTHORITY**
***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION***
***For the Year Ended August 31, 2020***

| | |
|---|---|
| **Operating revenues** | |
| Charges for sales and services: | |
| Metered water sales | $ 45,677,779 |
| Bond payment revenue | 5,683,620 |
| Irrigation sales | 2,593,058 |
| Other income | 988,870 |
| **Total operating revenues** | 54,943,327 |
| | |
| **Operating expenses** | |
| Personnel services | 9,969,928 |
| Supplies and materials | 22,513,296 |
| Contractual services | 2,090,848 |
| Other charges | 3,812,115 |
| Depreciation | 8,025,410 |
| **Total operating expenses** | 46,411,597 |
| | |
| **Operating income (loss)** | 8,531,730 |
| | |
| **Nonoperating revenues (expenses)** | |
| Investment income (loss) | 1,147,767 |
| Interest expense | (1,358,352) |
| Amortization of deferred gains/losses and premiums | 178,465 |
| Gain(loss) on sale of asset | 5,385 |
| **Total nonoperating revenues (expenses)** | (26,735) |
| | |
| **Income (loss) before capital contributions and transfers** | 8,504,995 |
| | |
| Capital Contributions | 2,140,000 |
| | |
| Change in Net Position | 10,644,995 |
| | |
| **Beginning Net Position** | 149,842,265 |
| Prior period adjustment | (2,253,404) |
| **Ending Net Position** | $ 158,233,856 |

# GULF COAST WATER AUTHORITY
***STATEMENT OF CASH FLOWS***
***For the Year Ended August 31, 2020***

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Receipts from customers and users | $ | 54,128,613 |
| Payments to suppliers | | (24,349,159) |
| Payments to employees | | (9,714,528) |
| **Net cash provided (used) by operating activities** | | 20,064,926 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Acquisition and construction of capital assets | | (14,204,580) |
| Principal paid on bonds | | (6,020,000) |
| Interest paid on capital related debt | | (1,407,801) |
| Payments received on long-term receivable | | 1,567,121 |
| Capital contributions received from participants | | 2,140,000 |
| **Net cash provided (used) by capital and related financing activities** | | (17,925,260) |
| **Cash Flows from Investing Activities** | | |
| Maturity (purchase) of investments | | 1,169,525 |
| Interest received | | 1,209,511 |
| **Net cash provided (used) by investing activities** | | 2,379,036 |
| **Net increase (decrease) in cash and cash equivalents** | | 4,518,702 |
| **Beginning cash and cash equivalents** | | 467,178 |
| **Ending cash and cash equivalents** | $ | 4,985,880 |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | |
| Operating income (loss) | $ | 8,531,730 |
| Adjustment to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation expense | | 8,025,410 |
| (Increase) decrease in assets: | | |
| Accounts receivable | | (814,714) |
| Prepaid items | | 284,723 |
| Deferred outflows - pension related | | 1,468,051 |
| Deferred outflows - OPEB related | | (25,397) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | | 3,782,377 |
| Wages payable | | 65,489 |
| Compensated absences payable | | 215,355 |
| Deferred inflows - pension related | | 611,067 |
| Deferred inflows - OPEB related | | 935 |
| Total OPEB liability | | 35,046 |
| Net pension liability | | (2,115,146) |
| **Net cash provided (used) by operating activities** | $ | 20,064,926 |
| **Noncash Investing, Capital, and Financing Activities** | | |
| Gain (loss) on disposal of capital assets | $ | 5,385 |

## Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of the Gulf Coast Water Authority (the "Authority"), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

### A. Reporting Entity

The Gulf Coast Water Authority (the "Authority") is a Conservation and Reclamation District and political subdivision of the State of Texas (the "State"), created and functioning under Article XVI, Section 59, of the Texas Constitution, pursuant to Chapter 712, Acts of the 59th Legislature, Regular Session, 1965,as amended (the "Act"). The Act created the Authority to conserve, store, transport, treat and purify, distribute, well and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purposes. It is also authorized to acquire water supplies from sources within or without its boundaries and to sell, transport and deliver water to customers situated within or without its boundaries and to acquire all properties and facilities necessary or useful for such purposes. The Act conferred no water rights on the Authority and it is not authorized to make any regulation of the withdrawal of underground water. The Authority may make, construct, or otherwise acquire improvements either within or without its boundaries necessary to carry out its powers and authority and to exercise the power of eminent domain for such purposes, except the Authority does not have the power of eminent domain as to all or any part of the water supply, property, works or facilities of any private person or persons, or of any private or public corporation or association engaged in the business of supplying water in Galveston County, Texas, to any class of consumers for any use as of the effective date of enabling legislation. However, the Authority may acquire necessary crossing easements and rights of way. The powers, rights, privileges, and functions conferred upon the Authority are subject to the continuing rights of supervision by the State, which is exercised by the Texas Department of Water Resources including approval of its projects. The Act granted the Authority none of the powers conferred by General Law for the purposes of the collection, transportation, processing, disposal and control of domestic, industrial or communal wastes, and the gathering, conducting, directing and controlling of local storm waters, or other local harmful excesses of water. Furthermore, the Authority has no power to levy taxes but is authorized to issue revenue bonds to provide funds for any and all of the purpose set forth in the Act and to collect related rates and costs.

The Authority is comprised of all of the territory contained within Galveston County, Texas, and its boundaries are the same as and coextensive with the boundaries of Galveston County, Texas. However, its operations are not necessarily limited to the confines of these boundaries.

The Authority is a separate self-supporting governmental unit and is administered by a board of ten directors. Five directors are appointed by the Commissioners Court of Galveston County, one of whom represents municipal interests, two of whom represent industrial interests, and two of whom represent the county at large. Two directors are appointed by the Fort Bend County Commissioners Court, one of whom represents municipal interests, and one of whom represents the county at large. Three directors are appointed by the Brazoria County Commissioners Court, one of whom represents agricultural interests, one of whom represents municipal interest, and one of whom represents industrial interests. A director appointed to represent municipal or industrial interests must be a customer of or represent and entity that is a customer of the district.

Appointees serve two-year terms, staggered five (5) one year and five (5) the next. Term of office coincides with the Authority's fiscal year, beginning September 1st.

## Note 1 - Summary of Significant Accounting Policies (continued)

### B. Financial Statement Presentation, Measurement Focus and Basis of Accounting

As a single purpose government engaging only in business type activities, the Authority follows enterprise fund accounting. Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water which is accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Position.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### C. Cash and Cash Equivalents

Cash and cash equivalents include amounts in checking, savings, and money market accounts.

### D. Accounts Receivable

Accounts receivable consist of balances due from customers of the various activities of the Authority. An allowance for doubtful accounts is established when necessary to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectability of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2020, no allowance for bad debts is recorded.

### E. Capital Assets

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The Authority's policy is to capitalize assets with an initial cost exceeding $5,000 and useful life of three years or greater.

The useful lives by the type of assets are as follows:

| Asset Class | Useful Life |
|---|---|
| Automobiles and Light Weight Trailers | 5 Years |
| Heavy Equipment, SCADA System, Pumps, and Other Equipment | 10 Years |
| Variable Frequency Drives and Water Meters | 15 Years |
| Bridges, Pressure Reduction Stations, and Elevated Storage Tanks | 20 Years |
| Booster Pump Stations, Check Structures, Clarifiers, and Underdrains | 25 Years |
| Buildings, Pump Stations, Surface Tanks, Siphons, and Water Treatment Plants | 30 Years |

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has three items that qualify for reporting in this category. It is the deferred charge on refunding reported in the statement of net position, deferred amounts related to pension, and deferred amounts related to OPEB. The deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB relate differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension and OPEB related changes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The Authority reports deferred amounts related to pension, deferred amounts related to OPEB, and deferred charges on the refunding. The deferred charge on refunding resulted from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**G. Pensions and Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net pension and total OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the Fiduciary Net Position of the Texas County and District Retirement System ("TCDRS") and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**H. Unamortized Bond Discounts and Premiums**

Included within long-term debt are unamortized bond discounts and premiums. These discounts and premiums are being amortized over the life of the related obligation on the straight-line method.

**I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**J. Reclassifications**

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenses.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**K. 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, liabilities, deferred inflows and outflows for pension items, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

**L. Date of Management's Review**

Subsequent events have been evaluated through January 5, 2021, which is the date the financial statements were available to be issued.

**M. Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent bond proceeds.

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

A summary of net investment in capital assets by division as of August 31, 2020 is as follows:

| Division | Capital Assets Net of Depreciation | Unspent Bond Proceeds | Capital Related Bonds Payable[1] | Net Investment In Capital Assets |
|---|---|---|---|---|
| League City SE Water Purification Plant | $ 12,315,585 | $ - | $ (267,699) | $ 12,047,886 |
| Thomas Mackey Water Treatment Plant | 10,993,325 | - | - | 10,993,325 |
| Canal Division | 14,103,883 | - | - | 14,103,883 |
| Galveston County WCID #12 | 1,029,312 | - | (1,245,000) | (215,688) |
| 1997 Galveston Projects | 1,313,265 | - | - | 1,313,265 |
| 1998 A-B Series South Projects | 4,382,265 | - | (5,661,872) | (1,279,607) |
| Juliff Chocolate Bayou Operations | 10,657,392 | 271 | - | 10,657,663 |
| Pearland SE Water Purification Plant | 15,658,554 | - | - | 15,658,554 |
| Northline Group | 130,995 | - | - | 130,995 |
| Bayshore Group | 25,458 | - | - | 25,458 |
| Texas City Reservoir | 15,843,826 | 886,146 | (7,825,000) | 8,904,972 |
| Industrial Pump Station | 28,306,974 | 1,366,605 | (12,315,000) | 17,358,579 |
| Administrative Operations | 167,664 | - | - | 167,664 |
| | $ 114,928,498 | $ 2,253,022 | $ (27,314,571) | $ 89,866,949 |

[1] Includes premium and deferred gains/losses on refunding

**Note 1 - Summary of Significant Accounting Policies (continued)**

**M. Net Position (continued)**

A summary of net position restricted for debt service as of August 31, 2020 is as follows:

| | Restricted Investments for Debt Service | Accrued Interest Payable | Total |
|---|---|---|---|
| League City SE Water Purification Plant | $ 280,447 | $ (433) | $ 280,014 |
| Galveston County WCID #12 | 264,708 | (1,842) | 262,866 |
| 1998 A-B South Projects | 2,461,364 | (10,827) | 2,450,537 |
| Texas City Reservoir | 128,398 | (8,900) | 119,498 |
| Industrial Pump Station | 1,493,832 | (19,447) | 1,474,385 |
| **Total** | $ 4,628,749 | $ (41,449) | $ 4,587,300 |

A summary of investments restricted by category as of August 31, 2020 is as follows:

| Restricted Investments | Amount |
|---|---|
| Unspent Bond Proceeds | $ 2,253,022 |
| Debt Service | 4,628,749 |
| Debt Service on Behalf of Customers | 986,606 |
| Construction | 680,775 |
| | $ 8,549,152 |

**N. Current and Future GASB Pronouncements**

The following GASB pronouncements have been implemented by the Authority in the current fiscal year:

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statements was issued was in March 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The requirements of this Statement are effective immediately.

The effective dates of the following pronouncements are postponed by 12 months:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**N. Current and Future GASB Pronouncements (continued)**

- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases.*

The Authority implemented GASB No. 83 *Certain Asset Retirement Obligations* and GASB No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in fiscal year 2019. The Authority plans on implementing GASB No. 84 *Fiduciary Activities* in fiscal year 2021 and GASB No. 87 *Leases* in fiscal year 2022.

The following GASB pronouncements have been issued but not yet implemented by the Authority:

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. It was issued in June 2020, but the requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. Implementation of this Statement is planned for fiscal year 2022.

GASB Statement No. 96**,** *Subscription-Based Information Technology Arrangements*. This statement was issued in May 2020 and provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.  Implementation of this Statement is planned for fiscal year 2023.

**Note 2 - Cash and Cash Equivalents and Investments**

The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities in an amount sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the general-purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with bond provisions.

**Note 2 - Cash and Cash Equivalents and Investments (continued)**

Certificates of deposit are reported at cost. Participating interest-earning investment contracts (repurchase agreements) that mature within one year of acquisition date are reported at fair value; those that mature within one year or less at date of acquisition are reported at amortized cost. Debt securities (U.S. Treasury securities, U.S. government agency securities) are reported at fair value, except those maturing in less than one year, which are recorded at amortized cost. Fair value is determined using quoted market prices. Unrealized gains and losses are included as a component of investment income.

**Deposits**

As authorized in bond provisions, deposits of the Authority are in short-term certificates of deposit, demand accounts and interest-bearing money market accounts. Deposits of $665,047 are secured as of August 31, 2020 by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank. The carrying value of the deposits as of August 31, 2020 was $5.0 million, which included $2.4 million held in a sweep account.

**Investments**

Investments for the Authority are reported at fair value. The Authority categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The Authority's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants.*

The Authority's investment policy reflects the requirements of the Texas Public Funds Investment Act. This statute authorizes the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, investment pools, qualified commercial paper, and common trust funds.

State law and the Authority's investment policy limits investments in agency securities to be rated AA or better with a stated maturity not to exceed three years. Commercial paper is A1/P1 rated with a stated maturity not to exceed 180 days. As of August 31, 2020, all investments were made in accordance with the Authority's investment policy. Investments that are not represented by specific identifiable investment securities such as mutual fund investment pools are not classified as to credit risk.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in Authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The amortized cost of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at amortized cost, which approximates fair value.

## Note 2 - Cash and Cash Equivalents and Investments (continued)

### Investments (continued)

TexPool and TexPool Prime are currently rated AAAm by Standard and Poor's which indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss. The pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

At year-end, the Authority's investment balances were as follows:

| Investment Type | Fair Value | Percentage of Portfolio | Weighted Average Maturity (Days) |
|---|---|---|---|
| TexPool | $ 1,122,180 | 1.7% | 27 |
| TexPool Prime | 66,002,893 | 98.3% | 50 |
| Totals | $ 67,125,073 | 100% | 50 |

## Note 3 - Capital Assets

The following table summarizes the changes in the components of capital assets:

| | Beginning Balance (Restated) | Additions | Retirements | Transfers | Ending Balance |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 1,959,587 | $ - | $ - | $ - | $ 1,959,587 |
| Construction in progress | 28,006,176 | 14,128,038 | - | (2,033,658) | 40,100,556 |
| Total capital assets not being depreciated | 29,965,763 | 14,128,038 | - | (2,033,658) | 42,060,143 |
| Capital assets being depreciated: | | | | | |
| Office furniture, fixtures and equipment | 231,900 | - | - | 78,101 | 310,001 |
| Other machinery and equipment | 5,829,895 | - | - | - | 5,829,895 |
| Automobiles and trucks | 1,792,382 | 76,542 | (34,208) | 185,010 | 2,019,726 |
| Buildings | 3,950,376 | - | - | 1,203,786 | 5,154,162 |
| Infrastructure | 231,501,290 | - | (75,075) | 566,761 | 231,992,976 |
| Total capital assets being depreciated | 243,305,843 | 76,542 | (109,283) | 2,033,658 | 245,306,760 |
| Less accumulated depreciation for: | | | | | |
| Office furniture, fixtures and equipment | (217,576) | (24,904) | - | - | (242,480) |
| Other machinery and equipment | (3,941,729) | (297,729) | - | - | (4,239,458) |
| Automobiles and trucks | (1,196,619) | (186,445) | 13,722 | - | (1,369,342) |
| Buildings | (3,314,940) | (291,657) | - | - | (3,606,597) |
| Infrastructure | (155,680,778) | (7,224,675) | (75,075) | - | (162,980,528) |
| Total accumulated depreciation | (164,351,642) | (8,025,410) | (61,353) | - | (172,438,405) |
| Total capital assets being depreciated, net | 78,954,201 | (7,948,868) | (170,636) | 2,033,658 | 72,868,355 |
| **Total Capital Assets, net** | $ 108,919,964 | $ 6,179,170 | $ (170,636) | $ - | $ 114,928,498 |

## Note 3 - Capital Assets (continued)

### Construction in Progress

Construction in progress for the various projects and remaining commitments under these construction contracts as of August 31, 2020, are as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Commitment |
|---|---|---|---|
| **TM WATER TREATMENT PLANT** | | | |
| High Service Pump Station | $ 808,572 | $ 537,947 | $ 270,625 |
| Projects Under $500,000 | 2,610,543 | 1,400,462 | 1,210,081 |
| | 3,419,115 | 1,938,408 | 1,480,707 |
| **CANAL DIVISION** | | | |
| Shannon River Bank Rehab | 913,672 | 514,834 | 398,838 |
| Operations Center | 1,332,385 | 616,167 | 716,218 |
| TXDOT I-45 @ G-Canal | 2,530,000 | 2,529,621 | 379 |
| Vehicles & Equipment: Dragline | 790,000 | 780,000 | 10,000 |
| Projects Under $500,000 | 4,414,013 | 2,200,811 | 1,960,575 |
| | 9,980,070 | 6,641,433 | 3,086,010 |
| **GALVESTON COUNTY WCID #12** | | | |
| Customer Takepoint:Kemah | 15,000 | 12,730 | 2,270 |
| | 15,000 | 12,730 | 2,270 |
| **GALVESTON 97 BONDS** | | | |
| Virginia Pt Pressure Reducing | 1,231,000 | 1,223,299 | 7,701 |
| | 1,231,000 | 1,223,299 | 7,701 |
| **1998 A-B SERIES PROJECTS** | | | |
| 42" Relocation SH3 | 523,800 | 394,818 | 128,982 |
| 42" Relo SH3 TxDot Real Estate | 398,800 | 1,844 | 396,956 |
| SCADA ALTA LOMA BYPASS | 27,000 | 24,976 | 2,024 |
| | 949,600 | 421,638 | 527,962 |
| **CHOCOLATE BAYOU DIVISION** | | | |
| B21045-PW-MustangBayouRsvr PW | 1,443,215 | 1,195,405 | 247,810 |
| CB Pump Station Replcmnt Desgn | 7,672,397 | 4,109,225 | 3,563,172 |
| Projects Under $500,000 | 1,359,708 | 879,037 | 324,478 |
| | 10,475,320 | 6,183,666 | 4,135,461 |
| Humble Camp PRV | 110,239 | 62,102 | 48,137 |
| Drainage Improvements Design | 1,400,000 | 1,388,791 | 11,209 |
| Projects Under $500,000 | 65,000 | 54,124 | 10,876 |
| IPS REPLACEMENT PUMP STATION | 19,500,000 | 19,162,936 | 337,064 |
| 7th Ave Booster Pump Station | 2,390,887 | 1,302,077 | 1,088,810 |
| Projects Under $500,000 | 2,715,319 | 1,709,346 | 983,797 |
| | 24,606,206 | 23,679,377 | 2,409,670 |
| Total Construction in Progress | **$ 50,676,311** | **$ 40,100,551** | **$ 11,649,781** |

## Note 4 - Long-Term Debt

### Changes in Long Term Liabilities

Total long-term liability activity for the year ended August 31, 2020, is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due In More Than One Year |
|---|---|---|---|---|---|---|
| Bonds Payable: | | | | | | |
| Revenue bonds | $ 36,618,000 | $ - | $ (6,020,000) | $ 30,598,000 | $ 6,230,000 | $ 24,368,000 |
| Bond premiums | 535,318 | - | (180,966) | 354,352 | - | 354,352 |
| Total bonds payable | 37,153,318 | - | (6,200,966) | 30,952,352 | 6,230,000 | 24,722,352 |
| Compensated absences | 1,133,592 | 584,624 | (369,269) | 1,348,947 | 449,649 | 899,298 |
| **Long term liabilities** | $ 38,286,910 | $ 584,624 | $ (6,570,235) | $ 32,301,299 | $ 6,679,649 | $ 25,621,650 |

Revenue bond long-term activity for the year ended August 31, 2020, is as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Industrial Division** | | | | | |
| Series 2016 A | $ 3,985,000 | $ - | $ (460,000) | $ 3,525,000 | $ 470,000 |
| Series 2016 B | 4,840,000 | - | (540,000) | 4,300,000 | 560,000 |
| Series 2017 | 12,995,000 | - | (680,000) | 12,315,000 | 700,000 |
| Series 2018 | 1,320,000 | - | (75,000) | 1,245,000 | 75,000 |
| **Total Industrial Division** | 23,140,000 | - | (1,755,000) | 21,385,000 | 1,805,000 |
| **League City Southeast Division** | | | | | |
| Series 2011 F | 510,000 | - | (250,000) | 260,000 | 260,000 |
| **Total League City Southeast Division** | 510,000 | - | (250,000) | 260,000 | 260,000 |
| **1998 A-B South Projects** | | | | | |
| Series 2011 A | 6,790,000 | - | (2,165,000) | 4,625,000 | 2,255,000 |
| Series 2011 B | 1,050,000 | - | (335,000) | 715,000 | 350,000 |
| **Total 1998 A-B South Projects** | 7,840,000 | - | (2,500,000) | 5,340,000 | 2,605,000 |
| **1998 C Series Texas City Projects** | | | | | |
| Series 2011 C | 2,465,000 | - | (500,000) | 1,965,000 | 520,000 |
| **Total 1998 C Series Texas City Projects** | 2,465,000 | - | (500,000) | 1,965,000 | 520,000 |
| **2002 Galveston Projects** | | | | | |
| Series 2012 | 1,958,000 | - | (800,000) | 1,158,000 | 820,000 |
| **Total Galveston Projects** | 1,958,000 | - | (800,000) | 1,158,000 | 820,000 |
| **1998 D Series La Marque Projects** | | | | | |
| Series 2011 D | 705,000 | - | (215,000) | 490,000 | 220,000 |
| **Total 1998 D Series La Marque Projects** | 705,000 | - | (215,000) | 490,000 | 220,000 |
| **Total Bonds Payable** | $ 36,618,000 | $ - | $ (6,020,000) | $ 30,598,000 | $ 6,230,000 |

**Note 4 - Long-Term Debt (continued)**

**Changes in Long Term Liabilities (continued)**

Maturities of bonds payable is as follows:

| Years | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 6,230,000 | $ 1,155,091 | $ 7,385,091 |
| 2022 | 6,653,000 | 905,080 | 7,558,080 |
| 2023 | 1,930,000 | 608,019 | 2,538,019 |
| 2024 | 1,990,000 | 546,675 | 2,536,675 |
| 2025 | 2,055,000 | 483,340 | 2,538,340 |
| 2026 to 2030 | 9,605,000 | 1,414,337 | 11,019,337 |
| 2031 to 2033 | 2,135,000 | 92,349 | 2,227,349 |
| **Total** | $ 30,598,000 | $ 5,204,891 | $ 35,802,891 |

**Note 5 - Compensated Absences**

All full-time employees begin accruing paid sick leave eight (8) hours per month from the date of employment. Employees cannot use sick leave until completing ninety (90) days of service. Full-time employees who have completed five (5) years of service and are separated for non-disciplinary reasons shall be paid for one half of their accrued sick leave up to a maximum of 360 hours. Employees who have completed ten (10) years of service and separate due to death or retirement shall be paid the balance of accumulated sick leave up to a maximum of nine hundred and sixty (960) hours.

Full-time employees will accrue vacation hours each pay period beginning on their hire date. Employees will be able to take vacation upon completion of ninety (90) days of service. The maximum accrued balance an employee may carry is two times their annual accrual limit. The annual accrual limit for each employee is dependent on their years of service and ranges from 80 hours accrued per year for employees with less than 5 years of service to a maximum of 240 hours accrued per year for employees with more than 30 years of service. At August 31, 2020, accrued compensated absences are $1,348,947 with approximately $449,649 due within one year.

**Note 6 - Defined Benefit Pension Plan**

**Plan Description**

The Authority provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit plan in the state-wide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 677 nontraditional defined benefit pension plans. TCDRS issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available, upon written request, from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas, 78768-2034 or online at www.tcdrs.org.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (“TCDRS Act”). Members can retire at age 60 and above with 5 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 5 years of service but must leave their accumulated contributions to the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

**Note 6 - Defined Benefit Pension Plan (continued)**

**Plan Description (continued)**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitments to contribute. At retirement, disability or death, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates, as prescribed by the TCDRS Act.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Number of inactive employees entitled to but not yet receiving benefits | 43 |
| Number of active employees | 82 |
| Number of inactive employees receiving benefits | 38 |

**Funding Policy/Contributions**

The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer was 8.67% and the contribution rate for employees was 7%, as adopted by the governing body of the employer. The contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer with options available in the TCDRS ACT.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

**Net Pension Liability (Asset)**

The Authority's Net Pension Liability (Asset) ("NPL" or "NPA") was measured as of December 31, 2019, and the Total Pension Liability ("TPL") used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Real rate of return | 5.25% |
| Inflation | 2.75% |
| Long-term investment return | 8.00% |
| Growth in membership | 0.00% |
| Payroll growth | 1.00% |

## Note 6 - Defined Benefit Pension Plan (continued)

### Actuarial Assumptions (continued)

| | |
|---|---|
| Valuation date | Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported. |
| Actuarial cost method | Entry Age Normal[1] |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 10.4 years (based on contribution rate calculated in 12/31/2019 valuation) |
| Asset valuation method | 5-year smoothed market |
| Inflation rate | 2.75% |
| Salary increases | Varies by age and service; 4.9% average over career including inflation. |
| Investment rate of return | 8.00%, net of administrative and investment expenses, including inflation |
| Retirement age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions[1] | 2015: New inflation, mortality and other assumptions were reflected.<br>2017: New mortality assumptions were reflected. |
| Changes in Plan Provisions Reflected in the Schedule of Employer Contributions[1] | 2015: Employer contributions reflect that a 2% flat COLA was adopted.<br>2016: No changes in plan provisions were reflected in the Schedule.<br>2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.<br>2018: No changes in plan provisions were reflected in the Schedule.<br>2019: Employer contributions reflect that a 100% CPI COLA was adopted |

[1] Only changes that affect the benefit amount and that are effective 2015 and later are shown above.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Geometric Real Rate of Return (Expected Minus Inflation) |
|---|---|---|
| US Equities | 14.50% | 5.20% |
| Private Equity | 20.00% | 8.20% |
| Global Equities | 2.50% | 5.50% |
| International Equities - Developed | 7.00% | 5.20% |
| International Equities - Emerging | 7.00% | 5.70% |
| Investment-Grade Bonds | 3.00% | -0.20% |
| Strategic Credit | 12.00% | 3.14% |
| Direct Lending | 11.00% | 7.16% |
| Distressed Debt | 4.00% | 6.90% |
| REIT Equities | 3.00% | 4.50% |
| Master Limited Partnerships | 2.00% | 8.40% |
| Private Real Estate Partnerships | 6.00% | 5.50% |
| Hedge Funds | 8.00% | 2.30% |
| **Total Assets** | 100.00% | 5.55% |

**Note 6 - Defined Benefit Pension Plan (continued)**

**Changes in Actuarial Assumptions and Methods**

There were no changes in assumptions reflected in the Dec. 31, 2019 actuarial valuation. There was one method change reflected in the Dec. 31, 2019 actuarial valuation. The asset valuation method was changed so that any remaining unrecognized asset gains or losses from the previous year are updated to the current year to account for the time value of money using the investment return assumption. There were no other changes made to the asset valuation method.

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 8.10%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
|---|---|---|---|
| **Balances as of December 31, 2018** | $ 26,070,890 | $ 23,500,379 | $ 2,570,511 |
| Changes for the Year | | | |
| Service cost | 605,629 | - | 605,629 |
| Interest on total pension liability | 2,107,188 | - | 2,107,188 |
| Effect of economic/demographic gains or losses | (80,745) | - | (80,745) |
| Refund of contributions | (61,401) | (61,401) | - |
| Benefit payments | (1,288,586) | (1,288,586) | - |
| Administrative expenses | - | (20,497) | 20,497 |
| Member contributions | - | 409,769 | (409,769) |
| Net investment income | - | 3,859,668 | (3,859,668) |
| Employer contributions | - | 509,285 | (509,285) |
| Other | - | (11,007) | 11,007 |
| **Balances as of December 31, 2019** | $ 27,352,975 | $ 26,897,610 | $ 455,365 |

**Note 6 - Defined Benefit Pension Plan (continued)**

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability (asset) of the Authority, calculated using the discount rate of 8.10%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

| | 1% Decrease in Discount Rate 7.10% | Discount Rate 8.10% | 1% Increase in Discount Rate 9.10% |
|---|---|---|---|
| Total pension liability | $ 30,484,249 | $ 27,352,975 | $ 24,674,899 |
| Fiduciary net position | 26,897,611 | 26,897,610 | 26,897,611 |
| | $ 3,586,638 | $ 455,365 | $ (2,222,712) |

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended August 31, 2020, the Authority recognized pension expense of $564,595.

As of August 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experiences | $ 28,594 | $ 175,560 |
| Changes in assumptions | - | 1,073 |
| Net difference between projected and actual earnings | - | 667,659 |
| Contributions made subsequent to the measurement date | 427,709 | - |
| | $ 456,303 | $ 844,292 |

The $427,709 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending August 31, 2021.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

| Year Ended December 31, | Amount |
|---|---|
| 2021 | $ (281,166) |
| 2022 | (196,932) |
| 2023 | 81,792 |
| 2024 | (405,937) |
| 2025 | (13,455) |
| | $ (815,698) |

## Note 7 - Post Employment Benefits other than Pensions (OPEB)

### Plan Description

The Authority participates in the retiree Group Term Life (GTL) program for the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system described more fully in Note 6. The benefit terms of this program are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The district's contribution rate for the retiree GTL program is calculated annually on an actuarial basis and is equal to the cost of providing a one-year death benefit equal to $5,000. The benefits provided by this program are as follows:

- All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year and are eligible for the TCDRS pension plan. Only employers that have elected participation in the retiree Group Term Life program are included in the OPEB plan.
- The plan provides a $5,000 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the retiree GTL program.
- The OPEB benefit is a fixed $5,000 lump-sum benefit.
- No future increases are assumed in the $5,000 benefit amount.
- Benefit terms are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year.

### Membership Information

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Number of inactive employees entitled to but not yet receiving benefits | 16 |
| Number of active employees | 82 |
| Number of inactive employees receiving benefits | 31 |

"Receiving benefits" indicates the member is retired and receiving monthly pension benefits, and his or her beneficiary is eligible for the $5,000 lump sum upon the retiree's death.

### Contributions

Under the GTL program, the employer's benefit payments for the year are treated as being equal to its annual retiree GTL contributions. Employers in the Program make a combined contribution for both the active and retiree coverage; however, only the retiree coverage is considered an OPEB plan and therefore only the contributions associated with retiree covered are included under GASB 75.

The contributions for retiree GTL coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown on the exhibit on the next page. The contributions for active coverage are not considered an OPEB benefit under GASB 75 and are treated as a current benefit. Contributions made by the employer for retiree GTL benefits have been made at 0.12% for the 2019 and 2020 plan (calendar) years.

**Note 7 - Post Employment Benefits other than Pensions (OPEB) (continued)**

**Contributions (continued)**

Contributions made to the retiree GTL Program are held in the GTL Fund. The GTL fund does not meet the requirements of a trust under Paragraph 4b of GASB 75, as the assets of the GTL fund can be used to pay active GTL benefits which are not part of the OPEB plan.

**Actuarial Assumptions**

The Authority's Total OPEB Liability ("TOL") was measured as of December 31, **2019** and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

| | |
|---|---|
| Valuation date | Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Straight line amortization over expected working life |
| Investment rate of return | 2.74%; 20 Year Bond GO Index published by bondbuyer.com as of December 26, 2019. |
| Disability | Custom table based on TCDRS experience |
| Mortality - depositing members | 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Mortality - service retirees, beneficiaries and non-depositing members | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Mortality - disabled retirees | 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014 |
| Retirement | Custom table based on TCDRS experience |
| Other Termination of Employment | Custom table based on TCDRS experience |

**Discount Rate**

The TCDRS GTL program is treated as unfunded OPEB plan because the GTL trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.74% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2019.

**Note 7 - Post Employment Benefits other than Pensions (OPEB) (continued)**

**Changes in Total OPEB Liability**

| | | Total OPEB Liability |
|---|---|---|
| **Balances as of December 31, 2018** | $ | 139,400 |
| Changes for the year: | | |
| Service cost | | 4,888 |
| Interest on total pension liability | | 5,773 |
| Effect of economic/demographic experience | | (4,146) |
| Effect of assumptions changes or inputs | | 35,556 |
| Benefit payments | | (7,025) |
| **Balances as of December 31, 2019** | $ | 174,446 |

**Sensitivity Analysis**

The following presents the total OPEB liability of the Authority, calculated using the discount rate of 2.74%, as well as what total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.74%) or 1 percentage point higher (3.74%) than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

| | 1% Decrease 1.74% | Current Discount Rate 2.74% | 1% Increase 3.74% |
|---|---|---|---|
| Total OPEB liability | $ 209,963 | $ 174,446 | $ 147,153 |

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity**

For the year ended August 31, 2020, the Authority recognized OPEB expense of $14,627.

As of August 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experiences | $ 5,762 | $ 5,309 |
| Changes in assumptions | 34,258 | 10,903 |
| Contributions made subsequent to the measurement date | 5,729 | - |
| | $ 45,749 | $ 16,212 |

The $5,729 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending August 31, 2021.

**Note 7 - Post Employment Benefits other than Pensions (OPEB) (continued)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity (continued)**

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

| Year Ended December 31, | Amount |
|---|---|
| 2021 | $ 3,966 |
| 2022 | 3,966 |
| 2023 | 3,966 |
| 2024 | 3,964 |
| 2025 | 3,458 |
| 2026 | 4,488 |
| | $ 23,808 |

**Note 8 - Long-Term Contracts**

**Customer Contracts**

The Authority has contracted with its customers to sell and deliver water on demand, and the customers have agreed to buy from the GCWA or to pay for whether taken or not, minimum quantities of water as set forth in the contracts.

**Cost Sharing Water Project with City of Houston**

The Authority entered into a long-term cost sharing water project contract with the City of Houston, Texas to jointly finance and operate the Southeast Water Purification Plant (SEWPP) to supply existing and future treated water needs of the City of League City and the City of Pearland, Texas. Terms of the contract provide that the GCWA shall directly reimburse the City of Houston on a periodic basis for the expenses incurred in producing and pumping the water actually delivered to GCWA.

**Brooks Lake Diversion Weir Agreement with City of Sugar Land**

The Authority entered into a long-term agreement to establish a mechanism to fund the design, construction, operation, and maintenance costs of the Brooks Lake Diversion Weir. The City will finance the project and the Authority will reimburse the City for fifty percent of the cost of the project over no more than ten years in the manner stated in the agreement. Following the completion and acceptance by the City of the project, the parties will true up and reconcile the project costs to actual costs to reflect full reimbursement to the City by the Authority for fifty percent of the project costs.

**Chocolate Bayou Pump Station with INEOS Olefins & Polymers USA**

The Authority entered into a long-term agreement with INEOS Olefins & Polymers USA ("INEOS") to design, construct, and acquire a new Chocolate Bayou Pump Station and ancillary improvements. The estimated total cost of the project is \$8.70 million, of which INEOS agreed to make capital contributions totaling \$4.79 million. The remaining amount of approximately \$3.91 million will be paid by the Authority. At the end of fiscal year 2020, the project was substantially complete and expected to be online by the middle of fiscal year 2021.

### Note 9 - Employee 401(K) Plan Trust

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the Trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Supplemental Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Supplemental Plan; any employee would be vested in 100% of the Authority's contributions to the Supplemental Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Supplemental Plan. Employees may contribute to the plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2020, were $255,834.

### Note 10 - Insurance

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. Significant losses are covered by insurance as described below. There were no reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

At August 31, 2020, the Authority had a property and machinery breakdown coverage of $58,890,410; flood and earth movement coverage of $5,000,000; general liability coverage with a per occurrence limit of $1,000,000 and a general aggregate limit of $3,000,000; umbrella liability of $1,000,000; director's liability of $5,000,000; automobile liability of $1,000,000; and workers compensation with statutory coverage.

All coverages with the exception of automobile and workers compensation are insured with admitted A.M. Best rated A insurance companies. The automobile and workers compensation are placed with Texas Municipal League Intergovernmental Risk Pool. The Authority participates in the Texas Municipal League Intergovernmental Risk Pool. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

### Note 11 – Financing Agreement (Long-Term Receivable)

The Authority has entered into multiple agreements to issue revenue bonds in order to finance capital projects on-behalf of municipal customers. The principal and interest for these bonds are paid solely from payments received from the participating customers. The Authority is the legal owner of the assets until the bonds are paid in full. However, the customers have exclusive rights to the water transportation capacity of those assets and the customers become the owner of the assets once the associated bonds are deemed to be paid in full. The customers are responsible for operation and maintenance of the assets at the sole cost and expense to the customer. Therefore, the customers report the associated capital assets in their individual financial statements. As such, the Authority reports a long-term receivable which represents the remaining balance to be paid by the customer over the life of the bonds, less the amount of the current receivable billed and outstanding as of August 31, 2020. These agreements are currently active in the following divisions: 1998 C Series Texas City Projects, 1998 D La Marque Projects, and 2002 Galveston Projects. Since the customers will fund the remaining portion of the outstanding liability and related costs, there is no net position reported for these divisions.

**Note 12 - Prior Period Adjustment**

In previous years the Authority entered into multiple agreements to issue revenue bonds in order to finance capital projects on-behalf of municipal customers. The capital assets funded by the bonds were reported in the financial statements of the Authority (see Note 11). In accordance with Generally Accepted Accounting Principles (GAAP), which emphasize economic substance over legal form, the Authority has made a prior period adjustment to its financial statements removing the capital asset and related depreciation associated with these agreements. Additionally, a long-term receivable was recorded which represents the remaining balance to be paid by the customer over the life of the bonds, less the amount of the current receivable billed and outstanding as of August 31, 2019.

| | |
|---|---|
| Beginning Net Position | $ 149,842,265 |
| Removal of capital assets: | |
| Infrastructure | (38,956,936) |
| Accumulated depreciation | 32,607,420 |
| Total removal of capital assets | (6,349,516) |
| Record long-term receivable for financing agreement | 4,096,112 |
| Total prior period adjustment | (2,253,404) |
| Beginning Net Position - As Restated | $ 141,239,345 |

# REQUIRED SUPPLEMENTARY INFORMATION

# GULF COAST WATER AUTHORITY

***TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM***

***SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS***

***For the Last Six Measurement Years Ended December 31***

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service cost | $ 605,629 | $ 570,662 | $ 525,024 | $ 521,896 | $ 446,105 | $ 424,292 |
| Interest on total pension liability | 2,107,188 | 1,906,466 | 1,793,234 | 1,705,631 | 1,600,213 | 1,451,551 |
| Effect of plan changes | - | 1,162,542 | - | - | (50,096) | - |
| Effect of economic/demographic gains or losses | (80,745) | 14,528 | 37,814 | (541,362) | (76,245) | - |
| Effect of assumptions changes or inputs | - | - | (2,147) | - | 145,422 | - |
| Difference between expected and actual performance | - | - | - | - | - | 508,957 |
| Refund of contributions | (61,401) | (41,552) | (29,821) | (39,657) | (52,491) | - |
| Benefit payments/refunds of contributions | (1,288,586) | (1,035,984) | (898,838) | (781,376) | (637,742) | (526,744) |
| Net change in total pension liability | 1,282,085 | 2,576,662 | 1,425,266 | 865,132 | 1,375,166 | 1,858,056 |
| Total pension liability, beginning | 26,070,890 | 23,494,228 | 22,068,962 | 21,203,830 | 19,828,664 | 17,970,608 |
| Total pension liability, ending (a) | $ 27,352,975 | $ 26,070,890 | $ 23,494,228 | $ 22,068,962 | $ 21,203,830 | $ 19,828,664 |
| **Fiduciary Net Position** | | | | | | |
| Employer contributions | $ 509,285 | $ 435,105 | $ 406,156 | $ 374,433 | $ 332,112 | $ 550,788 |
| Member contributions | 409,769 | 351,296 | 327,923 | 302,310 | 268,141 | 242,851 |
| Investment income net of investment expenses | 3,859,668 | (455,435) | 3,116,068 | 1,511,562 | (222,362) | 1,283,888 |
| Benefit payments | (1,288,586) | (1,035,984) | (898,838) | (781,376) | (637,742) | (526,744) |
| Refunds of contributions | (61,401) | (41,552) | (29,821) | (39,657) | (52,491) | - |
| Administrative expenses | (20,497) | (18,876) | (16,142) | (16,435) | (14,817) | (15,246) |
| Other | (11,007) | (6,234) | (2,760) | (403,097) | 23,896 | 365,134 |
| Net change in fiduciary net position | 3,397,231 | (771,680) | 2,902,586 | 947,740 | (303,263) | 1,900,671 |
| **Fiduciary net position, beginning** | 23,500,379 | 24,272,059 | 21,369,473 | 20,421,733 | 20,724,996 | 18,824,325 |
| **Fiduciary net position, ending (b)** | $ 26,897,610 | $ 23,500,379 | $ 24,272,059 | $ 21,369,473 | $ 20,421,733 | $ 20,724,996 |
| Net pension liability / (asset), ending = (a) - (b) | $ 455,365 | $ 2,570,511 | $ (777,831) | $ 699,489 | $ 782,097 | $ (896,332) |
| Fiduciary net position as a % of total pension liability | 98.34% | 90.14% | 103.31% | 96.83% | 96.31% | 104.52% |
| Covered payroll | 5,853,856 | 5,018,511 | 4,684,610 | 4,318,716 | 3,830,584 | 3,469,295 |
| Net pension liability / (asset) as a % of covered payroll | 7.78% | 51.22% | -16.60% | 16.20% | 20.42% | -25.84% |

Note: GASB 68 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2015, data for previous years is unavailable.

# GULF COAST WATER AUTHORITY
***TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM***
***SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS***
***Last Six Fiscal Years***

| Year Ending August 31, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2015 | $ 332,112 | $ 332,112 | $ - | $ 3,830,588 | 8.67% |
| 2016 | 363,871 | 363,871 | - | 4,198,263 | 8.67% |
| 2017 | 381,828 | 381,828 | - | 4,404,014 | 8.67% |
| 2018 | 448,326 | 448,326 | - | 5,171,004 | 8.67% |
| 2019 | 477,326 | 477,326 | - | 5,492,147 | 8.69% |
| 2020 | 600,623 | 600,623 | - | 6,761,061 | 8.88% |

Note: GASB 68 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2015, data for previous years is unavailable.

## GULF COAST WATER AUTHORITY
***TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM***
***SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITIES AND RELATED RATIOS***
***For the Last Three Measurement Years Ended December 31***

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Total OPEB Liability** | | | |
| Service cost | $ 4,888 | $ 5,435 | $ 4,818 |
| Interest on total OPEB liability | 5,773 | 4,976 | 5,162 |
| Effect of economic/demographic experience | (4,146) | 8,066 | (3,071) |
| Effect of assumptions changes or inputs | 35,556 | (15,263) | 6,619 |
| Benefit payments/refunds of contributions | (7,025) | (6,022) | (6,090) |
| Net change in total OPEB liability | 35,046 | (2,808) | 7,438 |
| Total OPEB liability, beginning | 139,400 | 142,208 | 134,770 |
| Total OPEB liability, ending | $ 174,446 | $ 139,400 | $ 142,208 |
| | | | |
| Covered payroll | $ 5,853,856 | $ 5,018,511 | $ 4,684,610 |
| | | | |
| Total OPEB liability as a % of covered payroll | 2.98% | 2.78% | 3.04% |

Note: GASB 75 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2018, data for previous years is unavailable.

**GULF COAST WATER AUTHORITY**
***TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM***
***SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS***
***Last Five Fiscal Years***

| Year Ending August 31, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2016 | $ 5,261 | $ 5,261 | $ - | $ 4,198,263 | 0.13% |
| 2017 | 4,981 | 4,981 | - | 4,404,014 | 0.11% |
| 2018 | 6,324 | 6,324 | - | 5,171,004 | 0.12% |
| 2019 | 6,590 | 6,590 | - | 5,492,147 | 0.12% |
| 2020 | 8,114 | 8,114 | - | 6,761,061 | 0.12% |

Note: GASB 75 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2018, data for previous years is unavailable.

## APPENDIX D

## FORM OF OPINION OF BOND COUNSEL

[CLOSING DATE]

We have acted as bond counsel for Gulf Coast Water Authority (the "Authority") in connection with the bonds described as follows:

> GULF COAST WATER AUTHORITY CONTRACT REVENUE BONDS (CITY OF LEAGUE CITY PROJECT – SOUTHEAST TRANSMISSION LINE), SERIES 2021, dated December 1, 2021, in the principal amount of $5,985,000 (the "Series 2021 Bonds").
>
> The Series 2021 Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Series 2021 Bonds, the resolution adopted by the Board of Directors of the Authority on November 18, 2021 authorizing their issuance (the "Bond Resolution"), and the pricing certificate executed pursuant thereto (the "Pricing Certificate," and collectively with the Bond Resolution, the "Resolution"). Capitalized terms not defined herein shall have the meanings ascribed thereto in the Resolution.

We have acted as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2021 Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Series 2021 Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Series 2021 Bonds. Our role in connection with the Authority's Preliminary Official Statement and Official Statement has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the authorization and issuance of the Series 2021 Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority and the City Council of the City of League City (the "City"); customary certificates of officers, agents and representatives of the Authority, the City, and other public officials; and other certified showings relating to the authorization and issuance of the Series 2021 Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. I-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Authority, the Authority's financial advisor, the City, and other parties involved with the issuance of the Series 2021 Bonds with respect to matters solely within the knowledge of such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Resolution, including, but not limited to, covenants relating to the tax-exempt status of the Series 2021 Bonds.

Based on such examination, it is our opinion that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Series 2021 Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and therefore the Series 2021 Bonds constitute valid and legally binding obligations of the Authority.

(2) The Series 2021 Bonds are payable from and secured by a first lien on and a pledge of the Pledged Revenues, as such term is defined in the Resolution. The Series 2021 Bonds are Reserve Fund Participants and are additionally secured by the Reserve Fund Participant Account of the Reserve Fund.

(3) Interest on the Series 2021 Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Series 2021 Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of the owners of the Series 2021 Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Series 2021 Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Series 2021 Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the Authority, the City, and other parties upon which we have relied are determined to be inaccurate or incomplete or the Authority fails to comply with the covenants of the Resolution, interest on the Series 2021 Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Series 2021 Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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