

Please attach this Addendum to the copies of the Official Statement and forward copies to the parties to whom you have previously delivered copies of such Official Statement.

ADDENDUM TO OFFICIAL STATEMENT

Dated February 22, 2022

\$5,710,000

**GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
UNLIMITED TAX BONDS, SERIES 2022**

PLEASE BE ADVISED that the above-referenced Official Statement has been supplemented to correct the following information:

Page ii of the Official Statement – \$1,475,000 3.00% Term Bonds due March 1, 2038

Revised to: \$1,475,000 3.00% Term Bonds due March 1, 2042

This addendum is dated March 2, 2022.

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NEW ISSUE

RATING: S&P Global Ratings Insured: “AA/Stable”

S&P Global Ratings Underlying: “A-/Stable”

BOOK-ENTRY-ONLY

(see “OTHER INFORMATION – Municipal Rating” and “BOND INSURANCE” herein)

IN THE OPINION OF BOND COUNSEL (DEFINED BELOW), UNDER CURRENT LAW AND SUBJECT TO CONDITIONS DESCRIBED IN THE SECTION HEREIN “TAX EXEMPTION,” INTEREST ON THE BONDS (A) IS NOT INCLUDED IN GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES, AND (B) IS NOT AN ITEM OF TAX PREFERENCE FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM INCOME TAX. A HOLDER MAY BE SUBJECT TO OTHER FEDERAL TAX CONSEQUENCES AS DESCRIBED IN THE SECTION HEREIN “TAX EXEMPTION.” FURTHER, IN THE OPINION OF BOND COUNSEL, UNDER CURRENT LAW AND SUBJECT TO CONDITIONS DESCRIBED IN THE SECTION HEREIN “DESIGNATION FOR PURCHASE BY FINANCIAL INSTITUTIONS,” THE BONDS ARE QUALIFIED TAX-EXEMPT OBLIGATIONS WITHIN THE MEANING OF SECTION 265(B)(3) OF THE CODE.

THE BONDS WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

\$5,710,000

GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

(Galveston County, Texas)

UNLIMITED TAX BONDS, SERIES 2022

Dated Date: March 1, 2022

Due: March 1 — See page ii

(Interest Accrues from the Date of Delivery)

Galveston County Water Control and Improvement District No. 1, Galveston County, Texas (the “District”) is issuing its Unlimited Tax Bonds, Series 2022 (the “Bonds”) pursuant to the terms and conditions of a Bond Resolution of the District’s Board of Directors (the “Bond Resolution”); Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; an election held within the District on May 9, 2015; and an Order of the Texas Commission on Environmental Quality (“TCEQ” or the “Commission”).

Interest will accrue from the Date of Delivery (defined below) of the Bonds to the Initial Purchaser and is payable on September 1, 2022, and on each March 1 and September 1 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are direct obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Galveston County, City of Dickinson, Texas or any entity other than the District. See “THE BONDS – Sources of Payment” herein.

The Bonds will be issued in fully-registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and the nominee for The Depository Trust Company, New York, New York (“DTC”) which will act as securities depository for the Bonds. Individual purchases of the Bonds will initially be made pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** For as long as Cede & Co. is the sole registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas (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 Bonds. See “THE BONDS – Book-Entry-Only System” herein.

Proceeds from the Sale of the Bonds will be used to finance (i) Lobit Water Plant elevated storage tank rehabilitation, (ii) 26th Street lift station force main replacement, (iii) county barn and Hughes Lane lift stations rehabilitation, (iv) wastewater treatment plant process improvements, (v) 2022 sanitary sewer rehabilitation, (vi) tank mixing and chloramine boosting system for Lobit and West Water Plants, (vii) West Water Plant improvements, and (viii) the costs of professional services incurred in connection therewith. See “THE BONDS - Sources and Uses” herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”).**



SEE PAGE ii FOR MATURITY SCHEDULE

The Bonds are subject to optional redemption prior to their scheduled maturities as described herein. See “THE BONDS – Optional Redemption” herein. Additionally, the Bonds designated as term Bonds (the “Term Bonds”) are subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Sinking Fund Redemption” herein.

The Bonds are offered for delivery, when, as and if issued by the District and received by the initial purchaser (the “Initial Purchaser”), subject to the approving opinions of the Attorney General of the State of Texas and Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel for the District. See “LEGAL MATTERS” herein and “Form of Opinion of Bond Counsel” attached hereto as Appendix D. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about March 22, 2022 (the “Date of Delivery”).

MATURITY SCHEDULE

\$5,710,000
GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
UNLIMITED TAX BONDS, SERIES 2022
CUSIP Prefix ^(c): 364316

\$2,625,000 Serial Bonds

Date	Principal	Interest		CUSIP No.
March 1	Amount	Rate	Yield ^(b)	Suffix ^(c)
2023	\$ 185,000	5.00%	1.000%	QX0
2024	195,000	5.00%	1.200%	QY8
2025	205,000	5.00%	1.400%	QZ5
2026	215,000	5.00%	1.600%	RA9
2027	225,000	5.00%	1.700%	RB7
2028	235,000	5.00%	1.800%	RC5
2029	250,000	5.00%	1.900%	RD3
2030	260,000	5.00%	2.000%	RE1
2031	275,000	5.00%	2.050%	RF8
2032 ^(a)	285,000	3.00%	2.100%	RG6
2033 ^(a)	295,000	3.00%	2.200%	RH4

\$3,085,000 Term Bonds

\$620,000 3.00% Term Bonds due March 1, 2035 ^{(a)(d)} Priced to Yield^(b) 2.40% CUSIP Suffix^(c) RK7
\$990,000 3.00% Term Bonds due March 1, 2038 ^{(a)(d)} Priced to Yield^(b) 2.60% CUSIP Suffix^(c) RN1
\$1,475,000 3.00% Term Bonds due March 1, 2038 ^{(a)(d)} Priced to Yield^(b) 2.80% CUSIP Suffix^(c) RS0

(Interest accrues from Initial Date of Delivery)

- (a) The Bonds with stated maturities on or after March 1, 2032 are subject to optional redemption in whole or from time to time, in part prior to their scheduled maturities, on March 1, 2031 or any day thereafter at a price of par plus accrued interest. See “THE BONDS – Optional Redemption”.
- (b) The initial reoffering prices or yields of the Bonds are furnished by the Initial Purchaser (as identified on the cover page hereof) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (c) CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (d) Subject to mandatory sinking fund redemption as described herein.

Galveston County Water Control and Improvement District No. 1 (the “District”), a political subdivision of the State of Texas, was created in July 1938 by the Galveston County Commissioner’s Court as a Fresh Water District and was converted to a water control and improvement district in February, 1939. It operates pursuant to Chapters 49 and 51 Texas Water Code. The District provides water, wastewater and solid waste disposal services.

District Officials

<u>Board Members</u>	<u>Position</u>	<u>Term Expires</u>
John Mitchiner	President	May 2024
Shamarion Barber	Vice President	May 2024
William J. Gaffey	Secretary/Treasurer	May 2022
Jeffrey Spriggins	Director	May 2024
Garland Copelin	Director	May 2022

Official Representatives

<u>Name</u>	<u>Position</u>	<u>Date Hired</u>
Ivan Langford	General Manager	9/2/2020
Aurora Amaro	Chief Financial Officer	5/16/2008
Keith Morgan	Superintendent of Water & Wastewater	7/30/2004
Nancy Click	Human Resources	8/28/1998

Consultants

Bond Counsel	Hunton Andrews Kurth LLP	Houston, Texas
District Legal Counsel	Olson & Olson LLP	Houston, Texas
Auditor	McCall Gibson Swedlunch Barfoot PLLC	Houston, Texas
Engineer	HDR Engineering, Inc.	Houston, Texas
Financial Advisor	USCA Municipal Advisors	Houston, Texas

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USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

All the summaries of the statutes, Bond Resolution, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District.

Certain information set forth herein has been obtained from the District and other sources, which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Initial Purchaser.

No broker, dealer, sales representative or any other person has been authorized by the District, the Financial Advisor or the Initial Purchaser to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the District’s undertaking to provide certain information on a continuing basis.

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

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH 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.

NEITHER THE DISTRICT NOR ITS FINANCIAL ADVISOR 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 DESCRIBED UNDER “THE BONDS – BOOK-ENTRY-ONLY SYSTEM” HEREIN.

The agreements of the District and others related to the 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 Bonds is to be construed as an agreement with the Purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. 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.

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 websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12.

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

TABLE OF CONTENTS

MATURITY SCHEDULE.....	ii	Financial Policies.....	13
DISTRICT OFFICIALS, ADMINISTRATION AND CONSULTANTS	iii	Deposits and Investments	14
USE OF INFORMATION IN OFFICIAL STATEMENT	iv	INFECTIOUS DISEASE OUTBREAK-COVID-19..	16
OFFICIAL STATEMENT SUMMARY	vi	LEGAL MATTERS	17
SELECTED INFORMATION OF THE DISTRICT	viii	Legal Opinions	17
INTRODUCTION	1	No Litigation Certificate.....	18
THE BONDS	1	Litigation	18
Sources and Uses	1	TAX EXEMPTION	18
General.....	2	Opinion of Bond Counsel	18
Description.....	2	Other Tax Matters.....	18
Authority for Issuance.....	2	Bond Premium.....	19
Sources of Payment.....	2	Designation for Purchase by Financial Institution..	19
Optional Redemption	2	CONTINUING DISCLOSURE OF INFORMATION	19
Mandatory Sinking Fund Redemption	2	Annual Reports	19
Notice of Redemption	3	Event Notices.....	20
Book-Entry-Only System.....	3	Availability of Information from EMMA.....	21
Ownership.....	5	Limitations and Amendments.....	21
Transfers and Exchanges	5	Compliance with Prior Undertakings	21
Remedies in the Event of Default	6	OTHER INFORMATION	21
Paying Agent/Registrar	6	Municipal Rating.....	21
Record Date for Interest Payment.....	7	Financial Advisor	21
Defeasance	7	Initial Purchaser.....	22
AD VALOREM PROPERTY TAXATION	7	BOND INSURANCE.....	22
Valuation of Taxable Property	7	Bond Insurance Policy.....	22
Issuer and Taxpayer Remedies.....	8	Build America Mutual Assurance Company	22
State Mandated Homestead Exemptions for Veterans	8	BOND INSURANCE RISK FACTORS	23
Local Option Homestead Exemptions.....	8	Claims-Paying Ability and Financial Strength of Municipal Bond Insurers	24
Personal Property	8	GENERAL CONSIDERATIONS	24
Freeport Exemptions	8	Prices and Marketability	24
Other Exempt Property	8	Legal Investments and Eligibility to Secure Public Funds in Texas	25
Temporary Exemption for Qualified Property Damaged by a Disaster	9	Securities Laws.....	25
Tax Abatement Agreements.....	9	Sources and Compilation of Information.....	25
Public Hearing and Maintenance and Operations Tax Rate Limitations.....	9	Forward-Looking Statements	25
Tax Rate Limitations.....	10	Approval of Official Statement	26
The District's Rights in the Event of Tax Delinquencies.....	10	Certification of the Official Statement.....	26
District Application of Property Tax Code	11	Audited Financial Statements	26
Tax Abatement.....	11	APPENDICES	
ISSUER INFORMATION	11	APPENDIX A – Financial Information and Debt Information	
Authorized But Unissued General Obligation Debt	11	APPENDIX B – Economic and Demographic Information	
Anticipated Issuance of Additional Debt	12	APPENDIX C – Selected Data from Annual Financial Report Galveston County Water Control and Improvement District No. 1, Texas Fiscal Year Ended September 30, 2021	
League City Contract	12	APPENDIX D – Form of Opinion of Bond Counsel	
Texas City Contract	12	APPENDIX E – Specimen Municipal Bond Insurance Policy	
Surface Water Supply Contract.....	12		
Fire Protection Services Agreement.....	12		
Potential for Gulf Storm Impacts	12		
Revenue Obligations	13		
Other Obligations.....	13		
Employee Retirement Plan.....	13		
Other Postemployment Benefits (OPEB).....	13		

OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information contained therein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Official Statement Summary from the Official Statement or otherwise to use same without the entire Official Statement.

The Issuer	Galveston County Water Control and Improvement District No. 1, Galveston, Texas (the "District").
The Bonds	\$5,710,000 Galveston County Water Control and Improvement District No. 1, Unlimited Tax Bonds, Series 2022 (the "Bonds") are being issued in the principal amounts, maturities, and at the rates per annum as set forth on the page ii hereof.
Interest	The Bonds are dated March 1, 2022. Interest will accrue from the initial date of delivery of the Bonds to the Initial Purchaser at the rates indicated on the inside cover page hereof, with interest payable on September 1, 2022, and on each March 1 and September 1 thereafter until maturity or earlier redemption. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully-registered form in integral multiples of \$5,000 of principal amount. See "THE BONDS – Description" herein.
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas.
Authority for Issuance	The Bonds are issued by the District pursuant to the terms and conditions of a Bond Resolution of the District's Board of Directors (the "Bond Resolution"): Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; an election held May 9, 2015 within the District; and an Order of the Texas Commission on Environmental Quality ("TCEQ").
Optional Redemption	The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after March 1, 2032, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2031, or any day thereafter at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Optional Redemption" herein.
Mandatory Sinking Fund Redemption	The Bonds maturing on March 1, 2035, March 1, 2038 and March 1, 2042 have been designated as term Bonds (the "Term Bonds"). The Term Bonds are subject to mandatory sinking fund redemption as provided herein. See "THE BONDS - Mandatory Sinking Fund Redemption" herein.
Source of Payment	Principal of and interest on the Bonds is payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Galveston County, City of Dickinson, Texas or any entity other than the District. See "THE BONDS – Sources of Payment" herein. See "THE BONDS– Sources of Payment."
Use of Proceeds	Proceeds from the Sale of the Bonds will be used to finance (i) Lobit Water Plant elevated storage tank rehabilitation, (ii) 26th Street lift station force main replacement, (iii) county barn and Hughes Lane lift stations rehabilitation, (iv) wastewater treatment plant process improvements, (v) 2022 sanitary sewer rehabilitation, (vi) tank mixing and chloramine boosting system for Lobit and West Water Plants, (vii) West Water Plant improvements, and (viii) the costs of professional services incurred in connection therewith. See "THE BONDS - Sources and Uses" herein.

Book-Entry-Only System	The Bonds are initially issuable only to Cede & Co., the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Principal of and interest on the Bonds will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.
Authorized but Unissued Bonds	There will be no authorized but unissued bonds remaining after issuance of the Bonds. The voters of the District may, in the future authorize the issuance of additional bonds.
Payment Record	The District has not defaulted on its outstanding debt obligations.
Municipal Rating	S&P Global Ratings, a division of S&P Global Inc. has assigned its underlying municipal bond rating of “AA/Stable” to the Bonds by virtue of a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds. See “BOND INSURANCE” herein. S&P has assigned its underlying municipal bond rating of “A-/Stable” to the Bonds. See “OTHER INFORMATION – Municipal Rating” herein.
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”) .
Tax Exemption	In the opinion of Bond Counsel (defined below), under current law and subject to conditions described in the Section herein “TAX EXEMPTION,” interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the Section herein “TAX EXEMPTION.” Further, in the opinion of Bond Counsel, under current law and subject to conditions described in the Section herein “Designation for Purchase by Financial Institutions,” the Bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.
Qualified Tax-Exempt Obligations	The District will designate the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX EXEMPTION – Designation for Purchase by Financial Institutions” herein.
Delivery	It is expected that the Bonds will be available for delivery through the facilities of DTC on or about March 22, 2022 (the “Date of Delivery”).
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Hunton Andrews Kurth LLP, Bond Counsel, Houston, Texas.

SELECTED FINANCIAL INFORMATION

2021 Net Taxable Assessed Value ^(a)	\$ 1,620,887,501
2020 Population estimate ^(a)	26,849
Area - Acres	6,523
Total water connections FYE 9/30/ 2021	8,862
Total wastewater connections FYE 9/30/2021	8,764

<u>Direct Ad Valorem Tax Debt as of February 1, 2022</u>	<u>Par Amount Outstanding</u>
Unlimited Tax Bonds, Series 2016	\$ 2,050,000
Total	\$ 2,050,000
Plus: The Bonds	\$ 5,710,000
Total	\$ 7,760,000

<u>Direct Debt Ratio</u>	<u>Per Capita 2020 Estimate</u>	<u>Percent of 2021 Assessed Value</u>
Total Direct Debt	\$ 289	0.48%

Annual Debt Service Requirements

Average Annual Debt Service	\$ 488,769
Maximum Annual Debt Service	\$ 649,850

Fund Balances as of 9/30/21

General Fund	\$ 5,606,107
Debt Service Fund	\$ 278,622

2021 Tax Rate

General Fund	\$ 0.095993
Debt Service Fund	0.016613
Total	\$ 0.112606

(a) Source: Municipal Advisory Council of Texas and Galveston County Appraisal District.

\$5,710,000
GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1
UNLIMITED TAX BONDS, SERIES 2022
(Galveston County, Texas)

INTRODUCTION

This Official Statement is provided to furnish information in connection with the offering by the Galveston County Water Control and Improvement District No. 1, Galveston, Texas (the "District") of its Unlimited Tax Bonds, Series 2022 in the aggregate principal amount of \$5,710,000 (the "Bonds").

Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution (the "Bond Resolution") to be adopted by the Board of Directors of the District (the "Board"), the governing body of the District, authorizing the issuance of the Bonds, except as otherwise indicated herein.

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, an order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") dated February 4, 2016, an election held within the District on May 9, 2015, and the Bond Resolution.

The Bonds are issued for the purposes described below and are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the District, without legal limit as to rate or amount. See "THE BONDS – Sources of Payment" herein.

The District's audited general purpose financial statements for the fiscal year ended September 30, 2021, which are included in Appendix C, present information on the general financial condition of the District at the dates and for the periods described therein.

THE BONDS

Sources and Uses

Proceeds from the Sale of the Bonds will be used to finance (i) Lobit Water Plant elevated storage tank rehabilitation, (ii) 26th Street lift station force main replacement, (iii) county barn and Hughes Lane lift stations rehabilitation, (iv) wastewater treatment plant process improvements, (v) 2022 sanitary sewer rehabilitation, (vi) tank mixing and chloramine boosting system for Lobit and West Water Plants, (vii) West Water Plant improvements, and (viii) the costs of professional services incurred in connection therewith. See "THE BONDS - Sources and Uses" herein.

The following table sets forth the estimated sources and uses of funds associated with the proceeds from the sale of the Bonds.

Sources of Funds:	
Par Amount	\$5,710,000.00
Original Issue Reoffering Premium	444,692.55
Total	<u>\$6,154,692.55</u>
Uses of Funds:	
Project Fund	\$5,710,000.00
Capitalized Interest	93,721.67
Initial Purchaser's Discount ^(a)	105,904.60
Issuance Costs ^(b)	245,066.28
Total	<u>\$6,154,692.55</u>

(a) Includes fees for a municipal bond insurance premium that will be paid by the Initial Purchaser.

(b) Includes professional costs, rating agency fees, fees of the Paying Agent/Registrar, rounding amount and any other costs of issuance.

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. Copies of the Bond Resolution may be obtained upon request to the District. Certain terms not defined elsewhere in the Official Statement are defined in the Bond Resolution.

Description

The Bonds will bear interest at the rates and will mature on the dates and in the amounts as set forth on the inside cover page hereof. The Bonds are dated March 1, 2022. Interest will accrue from the initial date of initial delivery to the Initial Purchaser and will be payable on September 1, 2022, and on each March 1 and September 1 thereafter, until maturity or prior redemption.

The Bonds will be issued only in fully-registered form, in integral multiples of \$5,000 of principal amount, for any one maturity, and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas (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 Bonds. See “THE BONDS – Book-Entry-Only System” herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, an order of the TCEQ, an election within the District held May 9, 2015, and the Bond Resolution.

Sources of Payment

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

Optional Redemption

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2032, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2031, or any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District will determine the maturity or maturities and the amounts thereof to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds maturing on March 1, 2035, March 1, 2038 and March 1, 2042 are referred to herein as “Term Bonds”. The Term Bonds are subject to scheduled mandatory sinking fund redemption and will be redeemed by the District, in part, at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of money made available for such purpose in the interest and sinking fund, on the dates and in the respective principal amounts set forth below:

<u>\$620,000 Term Bonds Maturing March 1, 2035</u>	
<u>Mandatory Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
March 1, 2034	\$ 305,000
March 1, 2035 (stated maturity)	\$ 315,000
<u>\$990,000 Term Bonds Maturing March 1, 2038</u>	
<u>Mandatory Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
March 1, 2036	\$ 320,000
March 1, 2037	\$ 330,000
March 1, 2038 (stated maturity)	\$ 340,000
<u>\$1,475,000 Term Bonds Maturing March 1, 2042</u>	
<u>Mandatory Sinking Fund Redemption Date</u>	<u>Principal Amount</u>
March 1, 2039	\$ 350,000
March 1, 2040	\$ 365,000
March 1, 2041	\$ 375,000
March 1, 2042 (stated maturity)	\$ 385,000

The particular Term Bond to be mandatorily redeemed shall be selected by lot or other customary random selection method. The principal amount of the Term Bond to be mandatorily redeemed on such mandatory redemption date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such mandatory redemption date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of Redemption

The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by United States mail, first class, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the registered owner of each Bond to be redeemed, in whole or in part, at the address of the registered owner shown on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY CONDITION TO REDEMPTION SPECIFIED THEREIN HAVING BEEN SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the Bonds, or redemption or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the beneficial owners, or

that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 Bonds. 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 a 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 registered 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating: "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. Discontinuance by the District of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the District may require the consent of Participants under DTC's Operational Arrangements. In that event, Bond Bonds will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the book-entry-only system is discontinued by DTC or the use of the book-entry-only system is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Resolution and summarized under "THE BONDS – Transfers and Exchanges" below.

Ownership

The District, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the owner of such Bond for the purposes of receiving payment of the principal thereof and the interest on the Bond and for all other purposes whatsoever, whether or not such Bond is due or overdue. Neither the District, the Paying Agent/Registrar, or any agent of either will be affected by any notice to the contrary.

Transfers and Exchanges

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New 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 designated amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any 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 Bond.

Remedies In The Event of Default

The Bond Resolution does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Resolution or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Bond Resolution. Furthermore, the Bond Resolution does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Resolution. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Bond Resolution. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The Paying Agent/Registrar covenants that it will at all times, until the Bonds are duly paid maintain an agency for the performance of the duties of the Paying Agent/Registrar. In the Bond Resolution, the District retains the right to replace the Paying Agent/Registrar. Every Paying Agent/Registrar must at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, registered as a transfer agent with the United States Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar, the

District agrees to promptly cause a written notice thereof to be sent to each Holder affected by the change, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date of the Bonds means the close of business on the 15th calendar day of the preceding 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 District. Notice of the Special Record Date and of the scheduled payment date of the past due interest, which shall be 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Registered Owner of an affected Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Defeasance

The Bond Resolution provides that the Bonds may be defeased in any manner now or hereafter provided by law.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Galveston County Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board, whose members are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates.

Issuer and Taxpayer Remedies

Under certain circumstances, the District and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

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

State Mandated Homestead Exemptions for Veterans

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a district, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the exemption and at what percentage.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport Exemptions

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days (“Goods-in-Transit”), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit during the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer’s retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

For a discussion of how the various exemptions described above are applied by the District, see “District Application of Property Tax Code” herein.

Public Hearing and Maintenance and Operations Tax Rate Limitations

The following terms as used in this section have the meanings provided below:

“adjusted” means lost values are not included in the calculation of the prior year’s taxes and new values are not included in the current year’s taxable values.

“de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“special taxing unit” means a district for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a district’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a district’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate.”

A district must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the district and the county tax assessor-collector for each county in which all or part of the district is located. A district must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified

appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a district fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the district for the preceding tax year.

As described below, the Property Tax Code provides that if a district adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its “de minimis rate”, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A district may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such district participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the district has held a public hearing on the proposed tax increase.

For municipalities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the district must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a district has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a district’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the district’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the district would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any district located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such district’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the District’s ability to set a debt service tax rate in each year sufficient to pay debt service on all of the District’s tax-supported debt obligations, including the Bonds.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Tax Rate Limitations

The District is authorized to levy an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the outstanding bonds and any additional bonds payable from taxes which the District may hereafter issue to pay the expenses of assessing and collecting such taxes.

The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District’s facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District’s voters. On November 2, 1993, the voters of the District authorized a maintenance tax in an amount not to exceed \$0.05 per \$100 of assessed valuation. On May 9, 2015, voters of the District authorized an increase of \$0.05 in the maintenance tax to a total not to exceed \$0.10 per \$100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the District’s outstanding bonds, the Bonds and any tax bond which may be issued in the future.

The District’s Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject

to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

District Application of Property Tax Code

The District does not grant a local option exemption of the market value of all residence homesteads.

The District does grant a local option exemption of the market value of the residence homestead of persons 65 years of age or older of \$25,000.

The District does not permit split payments, and discounts are not allowed.

The District does not tax Freeport Property.

The District has not taken action to tax Goods-in-Transit.

Tax Abatement

Galveston County may designate all or part of the area within the District that does not include area in a taxing jurisdiction of a municipality (the City of Dickinson) as a reinvestment zone. The City of Dickinson may designate property within its corporate boundaries or its extra territorial jurisdiction ("ETJ") as a reinvestment zone. The Cities of League City and Texas City may also designate property within the District that is located within their respective ETJ's as a reinvestment zone. Thereafter, Galveston County, the City of Dickinson (if the zone is located within its corporate boundaries or ETJ), the Cities of League City and Texas City (if the zone is located within their respective ETJ's), Dickinson Independent School District, or the District at the option and discretion of each entity, may enter into tax abatements agreements with the owners of property within the zone.

Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. Tax abatements agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements and repairs to the property in conformity with the terms of the tax abatement agreement. The terms of the tax abatement agreements with an owner of property within the zone must be substantially the same.

ISSUER INFORMATION

Authorized But Unissued General Obligation Debt

On May 9, 2015 the voters of the District approved \$9,200,000 of unlimited tax bonds. In 2016 the District issued \$3,490,000 in Unlimited Tax Bonds. After the issuance of the Bonds, the District will have no unlimited tax bonds authorized but unissued.

Anticipated Issuance of Additional Debt

Following the issuance of the Bonds, the District will have no authorized but unissued bond authority. However, the District is authorized to issue obligations secured by its water and sewer revenues. The District does not intend to issue revenue bonds.

League City Contract

On January 1, 1987, the District executed a Revised Water Supply Agreement with the City of League City (the “City”), replacing a previous Water Supply Agreement dated March 10, 1983. The agreement provides for the City to take or pay for, whether taken or not, 150,000 gallons of water per day. Beginning January 1, 1988, the gallons of water billed on a daily basis will be adjusted to equal the average daily usage of water by the City through the interconnect over the preceding year.

On October 19, 2009, the District executed an amendment to the January 1, 1987, Revised Water Supply Agreement with the City. The amendment was effective December 8, 2009, and permits the District to sell and deliver to the City, upon their request, 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided the District has excess water available. See “Note 11- CONTRACTS FOR WATER AND SEWER SERVICES -Selected Data from the Annual Financial Report Galveston County Water Control and Improvement District No. 1 Annual Financial Report for the Fiscal Year Ended September 30, 2021”.

Texas City Contract

On September 17, 1990, the District executed an Out-Of-District Water and Sewer Agreement with the City of Texas City (the “Texas City”) to provide water and sewer service to multiple tracts of land in Texas City. Per the District’s rate order, out-of-district customers pay 150% of water and sewer fees of in-district customers. This contract expired in September of 2020 however the District and the City of Texas City continue to honor the contract. See “NOTE 11- CONTRACTS FOR WATER AND SEWER SERVICES - Selected Data from the Annual Financial Report Galveston County Water Control and Improvement District No. 1 Annual Financial Report for the Fiscal Year Ended September 30, 2021”.

Surface Water Supply Contract

The District executed The Mainland Water Project Customer Contract with the Galveston County Water Authority, known as the Gulf Coast Water Authority (the “Authority”) for 1,500,000,000 gallons per day of treated surface water. . See “NOTE 12 - SURFACE WATER SUPPLY CONTRACT - Selected Data from the Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Fiscal Year Ended September 30, 2021”.

Fire Protection Services Agreement

The Dickinson Volunteer Fire Department (VFD) provides fire protection services to the citizens of the District and the City of Dickinson. The voters of the District approved a Fire Protection Service Agreement in May of 2017 that provides for a mandatory collection of \$5 per month for each residential connection and \$10 per month for each commercial or industrial connection to fund the Dickinson Volunteer Fire Department. See “NOTE 19 – FIRE PROTECTION SERVICES AGREEMENT” - Selected Data from the Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

Potential for Gulf Storm Impacts

The District is located near the Gulf Coast area. All of the U.S. Gulf Coast is subject to hurricanes, tropical storms and other weather events that can cause the loss of life and damage to property through weather events that include strong winds, storm surges, flooding and heavy rains. As has been seen in recent hurricanes that have landed along the U.S. Gulf Coast, such weather events can cause substantial interruption of business activity. In the event of a severe storm in the vicinity of the District, the District could experience reduced business activity for a prolonged period, which would adversely affect the receipts of service fees and revenues and possibly its ability to pay contractual commitments and debt obligations. As a result of the damage caused by the hurricanes, the District has had to make significant repairs and replacements to its systems. The costs for most of the system repairs have been paid from insurance proceeds or federal

relief funds. Additional hurricanes striking the area of the District in the future could result in decreases in population, taxable assessed valuations and require additional system repairs.

Revenue Obligations

The District has the following revenue notes outstanding. The Series 2020 Refunding Revenue Notes constitute a special obligation of the District that will be paid from and secured by a first lien on the net revenues of the District.

<u>Outstanding Revenue Debt as of February 1, 2022</u>	<u>Par Amount Outstanding</u>
Revenue Refunding Notes, Series 2020	\$ 5,025,000
Total	\$ 5,025,000

Other Obligations

In 2007 the District entered into a 22-year noncancelable operating lease with the City of Dickinson for office building space. See Note 16 – OPERATING LEASE - Selected Data from the Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Fiscal Year Ended September 30, 2021”. Future minimum operating lease commitments are as follows:

<u>FYE</u>	<u>Amount</u>
2022	\$ 86,965
2023	86,964
2024	86,964
2025	86,965
2026	86,964
2027-2028	173,929
	\$ 608,751

Employee Retirement Plan

The District provides retirement, disability and death benefits for all full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 600 nontraditional defined benefit pension plans. The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCERS 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 TCERS Act, the contribution rate of the employer is actuarially determined annually. At retirement, death, or disability, 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 prescribed by the TCERS Act. See Note 9 – PENSION PLAN - Selected Data from the Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Fiscal Year Ended September 30, 2021”.

Other Postemployment Benefits (OPEB)

The District participates in the retiree Group Term Life program for the TCERS which is a statewide, multiple employer public retirement system. All full-time and part-time non-temporary employees participate in the plan. Only employers that have elected participation are included in the OPEB plan. See Note 10 – OTHER EMPLOYMENT BENEFITS - Selected Data from the Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Fiscal Year Ended September 30, 2021”.

Financial Policies

Basis of Accounting. The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds

based upon the purposes for which they are utilized and the means by which spending activities are controlled. All proprietary funds are accounted for using the accrual basis of accounting. See “Selected Data from Annual Financial Report, Galveston County Water Control and Improvement District No. 1, Texas Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

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

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

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

Fund Balance Policy. The District adopted a fund balance policy in accordance with GASB 54.

Deposits and Investments

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the District Council. Both State law and the District’s investment policies are subject to change.

Legal Investments. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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) Bonds of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits or, (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (iii) the broker or the depository institution selected by the District arranges for the deposit of the funds in Bonds of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (iv) the full amount of the principal and accrued interest of each of the Bonds of deposit is insured by the United States or an instrumentality of the United States, and (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the Bonds of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District’s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and

(12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below. Texas law also permits the District to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

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

Under Texas law, District 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 District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest District funds without express written authority from the District Council.

Additional Provisions. Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District Council; (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer (if not the Treasurer) and investment officers; (6) 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; (7) restrict its investment in no-load mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (9) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investments transactions with the District

Current Investments. As of December 31, 2021, the District had approximately \$6,805,378.37 invested in cash and investments. The market value for such investments is approximately 100% of their book value. No funds of the District are invested in derivative securities.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

INFECTIOUS DISEASE OUTBREAK – 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 Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States 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 of Texas (the "Governor") declared a state of disaster for all counties in Texas 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 Resolution or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive Resolutions that have the force and effect of law. These include, for example, the issuance on April 17, 2020 of Executive Orders GA-16 and GA-17 which, among other things, established the Governor's Strike Force to Open Texas to guide the State's decisions on reopening Texas by phasing out prior orders for limitations on social gatherings and in-person contact except where necessary to provide or obtain essential services as defined in state and federal guidance. On June 3, 2020, the Governor issued executive order GA-26, which supersedes certain prior executive orders and continues to phase out shutdowns of certain activities and businesses. In addition to the actions by the state and federal officials, certain local officials, including County Judge of Harris County, have declared a local state of disaster. Many of the federal, state and local actions and policies under disaster declarations and shelter-in-place orders relating to the Pandemic are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

Pursuant to the guidance provided under the Resolutions of the Governor and the disaster declarations hereinabove described and in accordance with guidance provided by the United States Department of Homeland Security ("DHS") through its Cyber Infrastructure Security Agency ("CISA") in accordance with memorandum dated March 19, 2020, the District is denominated as "essential critical infrastructure" and its employees thereby as "essential critical infrastructure workers". As such and subject to internal management by the District of its personnel to meet guidance for management of social distancing and other policies to inhibit the spread of the COVID-19 virus, the District has continued its business

operations with and has continued to provide its water and wastewater production, transportation, collection and treatment without any mitigation or reduction in meeting the current and anticipated demands of the residents of the District.

The Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts, and impacts of any future measures taken to prevent or reduce the spread of COVID-19, may reduce or negatively affect economic activity and the employment of residents within the District, which in turn could limit the growth of or reduce the District's collection of Net Revenues of the System or ad valorem tax. To date, the District has not, however, seen a material reduction in the demand for its water or sanitary sewer services from residents of the District. The Bonds are secured by a pledge of the Net Revenues (as described in the Resolution) of the District, and a reduction in use water resources of the District could result in a decrease temporarily or for more extended periods of time on the revenues received by the District and thereby the available of Net Revenues (as defined in the Resolution). To date, however, the District is continuing to meet all of its operational and maintenance obligations together with its previous commitment for debt service obligations heretofore issued by the District. The Board of Directors of the District continues to monitor any impact of the Pandemic on the revenues of the District and possible negative impacts on the operating budget and overall financial condition of the District.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the District will continue to monitor the spread of COVID-19 and is working with local, state, and national agencies which are addressing the potential impact of the Pandemic. While the potential impact of the Pandemic on the District and its customers cannot be quantified at this time, the continued outbreak of COVID-19 could have a future adverse effect on the District's operations and financial condition.

LEGAL MATTERS

Legal Opinions

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of and opinion as to legality by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel for the District.

The District will furnish the Initial Purchaser with a complete transcript of proceedings held incident to the authorization and issuance of the Bonds, including the approving opinion of the Attorney General of the State of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and legally binding Bonds of the District under the Constitution and laws of the State. The District will also furnish the approving legal opinion of Bond Counsel in substantially the form attached hereto as Appendix D.

In its capacity as Bond Counsel, Hunton Andrews Kurth LLP, Houston, Texas, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with the Official Statement was limited to reviewing the information describing the Bonds in the Official Statement to verify that such descriptions conform to the provisions of the Bond Resolution. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the book-entry-only system.

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

No-Litigation Certificate

The District will furnish the Initial Purchaser certificate, dated as of the date of delivery of the Bonds, executed by both the President and the Secretary of the Board of Directors of the District, to the effect that no litigation of any nature is then pending or threatened in any court, restraining or enjoining the issuance or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

Litigation

The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The District has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs. Various claims and lawsuits are pending against the District. In the opinion of District management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the District's financial position.

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. Except as described in the Section herein "Designation for Purchase by Financial Institutions," no other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel's opinion is given in reliance upon certifications by representatives of the District as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the District to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See "*Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions*", 63 Bus. Law. 1277 (2008) and "*Legal Opinion Principles*", 53 Bus. Law. 831 (May 1998). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

Other Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Premium

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

Designation for Purchase by Financial Institutions

The Code generally provides that financial institutions may not deduct any of the interest expense (the “cost of carry”) allocable to tax-exempt obligations acquired after August 7, 1986, other than qualified tax-exempt obligations. Financial institutions may not deduct 20% of the cost of carry allocable to qualified tax-exempt obligations. An obligation’s status as a qualified tax-exempt obligation is dependent upon an affirmative act of designation by the issuer and is subject to, among other things, the issuer and its “subordinate entities,” within the meaning of Section 265(b)(3) of the Code, complying with limitations on the amount of obligations that may be issued and designated in the same calendar year.

The District has designated the Bonds as qualified tax-exempt obligations and has covenanted to comply with the provisions of Section 265(b)(3). In the opinion of Bond Counsel, under current law, the Bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3). Such opinion is given in reliance upon certifications by representatives of the District as to certain facts material to both such opinion and the requirements of Section 265(b)(3).

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”) in an electronic format as prescribed by the MSRB. Information will be publicly available on the MSRB’s Electronic Municipal Market Access System at www.emma.msrb.org.

Annual Reports

The District shall provide annually to the MSRB, (1) within six (6) months after the end of each Fiscal Year of the District ending in or after 2022, financial information and operating data with respect to the District of the general type included in this Official Statement under the Schedules in Appendix A, exclusive of schedules appearing under the headings “Tax Adequacy”, “Estimated Overlapping Debt” and “Estimated Overlapping Taxes” and including financial statements of the District if audited financial statements of the District are then available, and (2) if not provided as part such financial information and operating data, audited financial statements of the District, 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 District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District 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 District 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 statements becomes available.

The District may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of the trustee, if material, (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the continuing disclosure agreement make any provision for liquidity enhancement, the funding of debt service reserves or the appointment of a trustee. In addition, the District will provide timely notice of any failure by the District to provide annual financial information, data or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

For these purposes, (A) any event described in the subsection (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States 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 District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, (B) as used in subsections (15) and (16), "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, and (C) the District intends the words used in paragraphs (15) and (16) and the definition of financial obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

Availability of Information from EMMA

All such information described above must be filed with the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. The District has agreed to provide the foregoing information only to the MSRB through EMMA.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein 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 (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also repeal or amend the provisions of its continuing 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 District also may amend the provisions of its 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 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

For the past five years, the District has complied in all material respects with all continuing disclosure agreements made in accordance with Rule 15c2-12 with respect to the District's obligations subject to Rule 15c2-12.

OTHER INFORMATION

Municipal Rating

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC ("S&P") has assigned its municipal bond rating of "AA/Stable Outlook" to the Bonds based upon the issuance of a municipal bond insurance policy by Build America Mutual Assurance Company ("BAM") at the time of delivery of the Bonds. See "BOND INSURANCE" herein. S&P has assigned its underlying rating of "A-/Stable" to this issue of Bonds. An explanation of the rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

USCA Municipal Advisors, LLC ("USCA"), a subsidiary of U.S. Capital Advisors, LLC, is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect

to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. USCA, 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

USCA has reviewed the information in this Official Statement in accordance with its responsibilities to the District and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but USCA does not guarantee the accuracy or completeness of such information.

Initial Purchaser

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by SAMCO Capital Markets (the “Initial Purchaser”) to purchase the Bonds at the rates shown on page ii of this Official Statement at a price of par plus a cash Premium of \$338,787.95. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

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

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$481.5 million, \$183.4 million and \$298.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy may not insure against redemption premium, if any. The payment

of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Bond owner as a voidable preference under applicable bankruptcy law may be covered by the Policy, however, such payments may be made by the Bond Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment may exist (see “THE BONDS – Remedies in the Event of Default”).

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from moneys pledged pursuant to the Order. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

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

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

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

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

GENERAL CONSIDERATIONS

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds, stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bondhouse, broker, dealer, or similar person acting in the capacity of Initial Purchaser or wholesaler. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified on the inside cover page of this Official Statement. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Bonds, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees, and for municipalities and other political subdivisions or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than “A” or its equivalent to be legal investments of such entity’s funds. The “Public Funds Collateral Act,” Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. “Eligible Security” is defined to include local government obligations (such as the Bonds) with a rating from a nationally recognized investment firm of “A” or its equivalent. See “OTHER INFORMATION – Municipal Rating” herein.

The District makes no representation that the Bonds will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Securities Laws

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

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the District and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the District. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the statutes, the Bond Resolution and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Forward-Looking Statements

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

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

Approval of the Official Statement

This Official Statement has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12. The Bond Resolution will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize use in the re-offering of the Bonds by the Initial Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of the Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the District, and their activities contained in this Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

The Bond Resolution approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Initial Purchaser.

Audited Financial Statements

McCall Gibson Swedlund Barfoot PLLC, the District’s independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of McCall Gibson Swedlund Barfoot PLLC, relating to the District’s financial statements for the fiscal year ended September 30, 2021 is included in this Official Statement in APPENDIX C; however, McCall Gibson Swedlund Barfoot PLLC, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

APPENDIX A

FINANCIAL INFORMATION AND DEBT INFORMATION

The District has previously issued tax backed general obligations (“Outstanding Obligations”). The following table lists the principal amounts of the Outstanding Obligations, including the issuance of the Bonds.

Schedule 1 - Outstanding Tax Debt

<u>Total Outstanding Ad Valorem Tax Debt as of February 1, 2022</u>	<u>Par Amount Outstanding</u>
Unlimited Tax Refunding Bonds, Series 2016	\$ 2,050,000
Total	\$ 2,050,000
Plus: The Bonds	5,710,000
Total Outstanding Tax Debt	\$ 7,760,000

Schedule 2 – Debt Service Requirements

The following table reflects the debt service on the District’s Outstanding Obligations including the Bonds.

The Bonds							
FYE 9/30	Outstanding Debt Service	Principal	Interest Rate	Interest	Total	Total	
2022	\$ 265,475	\$ -	-	\$ 93,722 ^(a)	\$ 93,722 ^(a)	\$ 359,197	
2023	257,275	185,000	5.00%	207,575	392,575	649,850	
2024	249,075	195,000	5.00%	198,075	393,075	642,150	
2025	240,875	205,000	5.00%	188,075	393,075	633,950	
2026	234,213	215,000	5.00%	177,575	392,575	626,788	
2027	229,088	225,000	5.00%	166,575	391,575	620,663	
2028	223,963	235,000	5.00%	155,075	390,075	614,038	
2029	218,838	250,000	5.00%	142,950	392,950	611,788	
2030	213,456	260,000	5.00%	130,200	390,200	603,656	
2031	207,819	275,000	5.00%	116,825	391,825	599,644	
2032	-	285,000	3.00%	105,675	390,675	390,675	
2033	-	295,000	3.00%	96,975	391,975	391,975	
2034	-	305,000	3.00%	87,975	392,975	392,975	
2035	-	315,000	3.00%	78,675	393,675	393,675	
2036	-	320,000	3.00%	69,150	389,150	389,150	
2037	-	330,000	3.00%	59,400	389,400	389,400	
2038	-	340,000	3.00%	49,350	389,350	389,350	
2039	-	350,000	3.00%	39,000	389,000	389,000	
2040	-	365,000	3.00%	28,275	393,275	393,275	
2041	-	375,000	3.00%	17,175	392,175	392,175	
2042	-	385,000	3.00%	5,775	390,775	390,775	
Total	\$ 2,340,075	\$ 5,710,000		\$ 2,214,072	\$ 7,924,072	\$ 10,264,147	

(a) The 9/1/2022 interest payment is payable from capitalized interest on the Bonds.

Schedule 3 - Tax Adequacy for Tax Debt Service

The calculations shown below assume, solely for the purpose of illustration, no increase in assessed valuation over the 2021 Taxable Assessed Valuation provided by the Appraisal District and use a tax rate adequate to service the District's total debt service requirements following issuance of the Bonds.

Total Debt Service ^(a)

Average annual debt service requirements on the District's total outstanding indebtedness.	\$ 488,769
\$ 0.0311 Tax rate on the 2021 taxable assessed valuation at 97% collection produces	\$ 488,973
Maximum annual debt service requirements on the District's total outstanding indebtedness.	\$ 649,850
\$ 0.0414 Tax rate on the 2021 taxable assessed valuation at 99% collection produces.	\$ 650,916

(a) Includes the Bonds.

Schedule 4 - Estimated Overlapping Debt

Expenditures of the various taxing bodies within the territory of the District may be paid out of ad valorem taxes levied by these taxing bodies on property within the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following information on overlapping jurisdictions was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional obligations since the date stated in the table, and such entities may have programs requiring the issuance of substantial amounts of additional obligations the amount of which cannot be determined. The following table reflects the estimated share, in thousands, of overlapping debt of these various taxing bodies.

Estimated Overlapping Debt	Debt	As of	Percent	Amount
	Outstanding ^(b)		Overlapping	Overlapping
College of the Mainland	\$ 165,985,000	1/31/2022	8.95%	\$ 14,855,658
Dickinson ISD	373,055,000	1/31/2022	25.40%	94,755,970
Dickinson, City of	8,260,000	1/31/2022	94.94%	7,842,044
Galveston County	210,083,482	1/31/2022	3.34%	7,016,788
Total Overlapping	\$ 757,383,482			\$ 124,470,460
Galveston County WCID No. 1 ^(a)	\$ 7,760,000	3/1/2022	100%	\$ 7,760,000
	\$ 765,143,482			\$ 132,230,460

(a) Includes the Bonds.

(b) Gross Debt.

Source: Municipal Advisory Council of Texas.

Schedule 5 – Historical Analysis of Ad Valorem Taxation

The table sets forth the District’s historical taxable assessed valuation.

Tax Year	FYE 9/30	Assessed Valuation	Tax Rate	Tax Levy	Percent Collection
2017	2018	\$ 1,150,183,792	\$ 0.124608	\$ 1,433,221	99.15%
2018	2019	1,059,803,116	0.128011	1,358,547	98.65%
2019	2020	1,182,735,898	0.121479	1,438,458	97.62%
2020	2021	1,359,192,659	0.116554	1,556,945	97.96%
2021	2022	1,620,887,501	0.112606	1,825,217	NA

(a) Source: Municipal Advisory Council of Texas and Galveston County Central Appraisal District and the District.

Schedule 6 - Taxable Assessed Valuation by Category

The following information represents the taxable assessed valuation by category.

Property Valuations	2021	2020	2019	2018	2017
Land	\$ 311,699,217	\$ 282,262,748	\$ 256,998,640	\$ 247,043,746	\$ 241,284,154
Improvements	1,614,444,384	1,252,978,075	1,072,512,863	879,581,788	1,063,497,062
Personal Property	107,709,361	110,650,080	105,963,700	103,287,362	103,650,155
Exemptions	(412,965,461)	(286,698,244)	(252,739,305)	(170,109,780)	(258,247,579)
Total	\$ 1,620,887,501	\$ 1,359,192,659	\$ 1,182,735,898	\$ 1,059,803,116	\$ 1,150,183,792

Schedule 7 - Ten Largest Assessed Valuations

The following table lists the District top ten taxpayers for tax year 2021.

Ten Largest Taxpayers	Type of Business	2021 Taxable Assessed Value	Percent of Total Taxable Assessed Value
Green Caye Village LLC	Apartments	\$ 22,000,000	1.36%
Calumet Speciality Product Partners	Industrial Manufacturing	14,671,137	0.91%
2800 Gulf Freeway Ltd.	Car Dealership	14,581,833	0.90%
Creeside 2019 LLC	Apartments	12,350,000	0.76%
Dixie Partners II LP	Strip Mall/Plaza	11,420,910	0.70%
Mitchell M. Dale	Car Rentals	11,341,300	0.70%
Gay Buick GMC Inc.	Car Dealership	10,306,270	0.64%
Sunstone Dickinson I LLC	Apartments	9,242,650	0.57%
McRee Ford Inc.	Auto Dealership	9,007,190	0.56%
Texas-New Mexico Power Co.	Electric Utility/Power Plant	8,758,410	0.54%
		<u>\$ 123,679,700</u>	<u>7.63%</u>
2021 Total Taxable Assessed Value		\$ 1,620,887,501	

Source: The Municipal Advisory Council of Texas.

Schedule 8 – Tax Rate Distribution

<u>Tax Rate Distribution</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
General Fund	\$0.095993	0.095778	\$0.097139	\$ 0.115943	\$0.098323
Debt Service Fund	0.016613	0.020776	0.024340	0.012068	0.026285
Total	\$0.112606	\$0.116554	\$0.121479	\$ 0.128011	\$0.124608

Schedule 9 - Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on June 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Overlapping Tax Rate</u>	<u>2021 Tax Rate</u>
Galveston County	\$0.424540
Galveston County Road and Flood District	0.009560
Dickinson Independent School District	1.312000
City of Dickinson	0.404583
College of the Mainland Jr. College District	0.267700
Galveston County WCID No. 1	0.112606

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Schedule 10 – Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the District's Debt Service Fund. Such information has been prepared based upon information obtained from the District's audited financial statements and other information provided by the District. Reference is made to such statements for further and complete information.

	Fiscal Year End September 30,				
Revenues	2021	2020	2019	2018	2017
Property Taxes	\$ 286,450	\$ 292,957	\$ 301,211	\$ 323,895	\$ 720,002
Penalty and Interest	26,061	16,238	14,635	27,001	25,475
Investment Revenues	44	5,653	23,007	28,294	12,869
Miscellaneous	-	-	-	-	-
Total Revenues	312,555	314,848	338,853	379,190	758,346
Expenditures					
Contracted Services	25,073	22,772	19,955	29,254	30,300
Administrative Expenses	506	1,450	1,450	1,450	1,450
Debt Service					
Bond Principal	210,000	795,000	790,000	780,000	1,155,000
Bond Interest	282,468	244,023	425,505	446,213	474,369
Bond Issuance Costs	-	260,570	-	-	-
Payment to Refunded Bond Escrow Agent	-	955,130	-	-	-
Total Expenditures	518,047	2,278,945	1,236,910	1,256,917	1,661,119
Excess (Deficiency) of Revenues					
Over(Under) Expenditures	(205,492)	(1,964,097)	(898,057)	(877,727)	(902,773)
Other Financing Sources(Uses)					
Transfer In (Out)	391,510	339,502	(159,557)	922,238	919,196
Refunding Bonds	-	5,025,000	-	-	-
Payment to Refunded Bond Escrow Agent	-	(5,755,114)	-	-	-
Bond Premium	-	995,987	-	-	-
Total Other Financing Sources(Uses)	391,510	605,375	(159,557)	922,238	919,196
Net Change in Fund Balances	186,018	(1,358,722)	(1,057,614)	44,511	16,423
Fund Balance - Beginning	92,604	1,451,326	2,508,940	2,464,429	2,448,006
Fund Balance - Ending	\$ 278,622	\$ 92,604	\$ 1,451,326	\$ 2,508,940	\$ 2,464,429

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Schedule 11 – Historical Operations of the General Fund

The following statement sets forth in condensed form the historical operations of the District's General Fund. Such information has been prepared based upon information obtained from the District's audited financial statements and other information provided by the District. Reference is made to such statements for further and complete information.

	Fiscal Year End September 30,				
<u>Revenues</u>	2021	2020	2019	2018	2017
Property Taxes	\$ 1,277,555	\$ 1,144,333	\$ 1,053,282	\$ 1,123,963	\$ 1,030,345
Water Service	3,939,854	4,076,439	3,484,669	3,368,313	3,710,858
Wastewater Service	3,583,044	3,608,318	3,196,172	3,124,534	3,399,957
League City Interconnect Fees					464
Texas City Maintenance Fees	23,439	33,507	27,461	29,675	28,651
Out of District Surcharge	38,071	41,944	35,233	34,407	32,720
Grant Revenues	40,933	127,592	-	754,783	33,648
Solid Waste Revenues-District Portion	298,121	145,254	-		
Penalty and Interest	172,663	74,799	133,941	107,519	121,175
Tap Connection and Inspection Fees	370,490	229,123	294,967	223,290	171,753
Investment Revenues	12,924	48,646	113,608	71,949	32,474
Miscellaneous Revenues	145,572	84,264	525,846	133,928	129,783
Total Revenues	9,902,666	9,614,219	8,865,179	8,972,361	8,691,828
<u>Expenditures</u>					
Service Operations					
Payroll	3,664,990	3,529,313	3,375,234	3,124,710	3,124,947
Purchased Bulk Water	1,433,794	1,383,221	1,393,382	1,300,325	1,183,072
Professional Fees	103,423	89,652	62,523	76,642	58,239
Contracted Services	911,832	338,822	276,519	256,625	201,425
Repairs and Maintenance	1,498,230	996,632	911,575	516,799	861,661
Utilities	350,991	321,151	334,704	289,208	381,445
Administrative Expenses	821,934	704,015	662,785	647,559	707,295
Depreciation			-	-	-
Capital Outlay	2,619,958	575,753	682,214	1,812,261	802,872
Total Expenditures	11,405,152	7,938,559	7,698,936	8,024,129	7,320,956
Excess (Deficiency) of Revenues					
Over(Under) Expenditures	(1,502,486)	1,675,660	1,166,243	948,232	1,370,872
<u>Other Financing Sources(Uses)</u>					
Transfers In (Out)	(391,510)	(339,502)	(590,951)	(922,238)	(919,196)
Total Other Financing Sources(Uses)	(391,510)	(339,502)	(590,951)	(922,238)	(919,196)
Net Change in Fund Balances	(1,893,996)	1,336,158	575,292	25,994	451,676
Fund Balance - Beginning	7,500,103	6,163,945	5,588,653	5,562,659	5,110,983
Fund Balance - Ending	\$ 5,606,107	\$ 7,500,103	\$ 6,163,945	\$ 5,588,653	\$ 5,562,659

APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION

Galveston County Water Control and Improvement District No. 1 (the “District”), a political subdivision of the State of Texas, was created in July 1938 by the Galveston County Commissioner’s Court as a Fresh Water District and was converted to a water control and improvement district in February 1939. It operates pursuant to Chapters 49 and 51 Texas Water Code. The District provides water, wastewater and solid waste disposal services. The District is located entirely within Galveston County, along and on both sides of Interstate Highway 45, approximately 27 miles south of the central business district of the City of Houston. The District is approximately 6,523 acres and encompasses approximately 90% of the City of Dickinson and various unincorporated areas, including certain areas within the extraterritorial jurisdictions of League City and Texas City. As of September 30, 2014 the District had 7,837 active water connections (10, 403 equivalent single-family connections) and 7,571 wastewater connections.

The District is empowered to purchase, operate and maintain all facilities, plants and improvement necessary to provide water, wastewater and storm sewer drainage. The District is also empowered to contract for or operate and maintain a fire department for the District.

The County

Galveston County was formally established under the Republic of Texas on May 15, 1838. The county was formed from territory taken from Harrisburg, Liberty, and Brazoria Counties, with governmental organization taking place in 1839. Galveston County is located on the plains of the Texas Gulf Coast in the southeastern part of the state. The county is bounded on the northeast by Galveston Bay and on the northwest by Clear Creek and Clear Lake. Much of the county covers Galveston Bay, and is bounded to the south by the Galveston Seawall and beaches on the Gulf of Mexico. The 2020 Census places the population at 350,682. Galveston County is home to two junior universities, Texas A&M University at Galveston, and the University of Texas Medical Branch (UTMB), and two junior colleges, College of the Mainland and Galveston College. Largest employers in or immediately adjacent include the four petrochemical and reefing companies in Texas City, UTMB, the hospitality and tourism industry and NASA.

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APPENDIX C

**SELECTED DATA FROM
ANNUAL FINANCIAL REPORT
GALVESTON COUNTY WATER CONTROL & IMPROVEMENT DISTRICT
GALVESTON COUNTY, TEXAS
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2021

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2021

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TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-9
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	10-13
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	14
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	15-16
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	17
NOTES TO THE FINANCIAL STATEMENTS	18-44
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL	46
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS	47-48
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION	49
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY AND RELATED RATIOS	50
SCHEDULE OF DISTRICT CONTRIBUTIONS – OTHER POSTEMPLOYMENT BENEFITS	51
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
SERVICES AND RATES	53-55
GENERAL FUND EXPENDITURES	56-57
INVESTMENTS	58
TAXES LEVIED AND RECEIVABLE	59-60
LONG-TERM DEBT SERVICE REQUIREMENTS	61-63
CHANGES IN LONG-TERM BOND DEBT	64-65
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	66-69
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	70-71

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Galveston County Water Control and
Improvement District No. 1
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Water Control and Improvement District No. 1 (the "District"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Board of Directors
Galveston County Water Control and
Improvement District No. 1

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of District Contributions-Pension, the Schedule of Changes in Net Other Postemployment Benefit Liability and Related Ratios, and the Schedule of District Contributions-Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 18, 2022

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

Our discussion and analysis of the financial performance of Galveston County Water Control and Improvement District No. 1 (the "District") provides an overview of the District's financial activities for the fiscal year ended September 30, 2021. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$32,602,419 as of September 30, 2021. A portion of the District's net position reflects its net investment in capital assets (buildings, vehicles and equipment as well as the water and wastewater facilities, less any debt used to acquire those assets that is still outstanding).

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a comparative analysis of government-wide changes in net position:

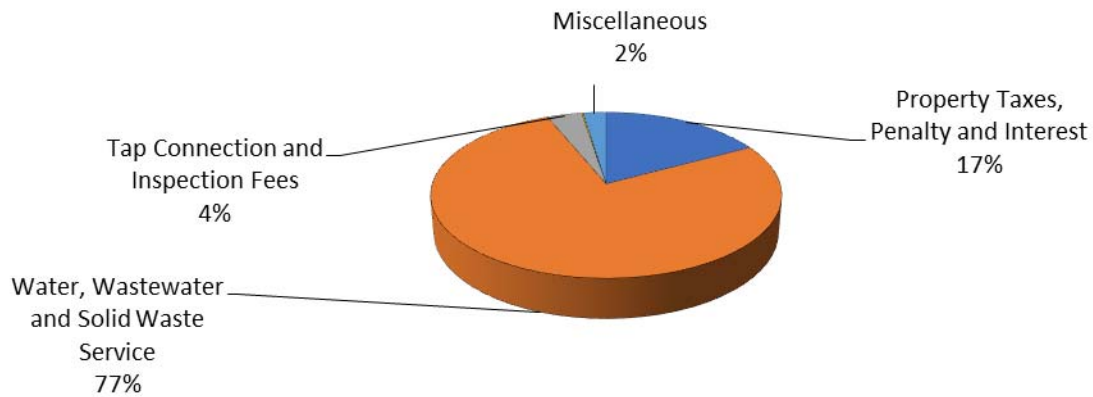
	Summary of Changes in the Statement of Net Position		
	2021	2020	Change Positive (Negative)
Current and Other Assets	\$ 9,486,913	\$ 12,068,513	\$ (2,581,600)
Capital Assets (Net of Accumulated Depreciation)	34,651,937	31,599,182	3,052,755
Total Assets	\$ 44,138,850	\$ 43,667,695	\$ 471,155
Deferred Outflows of Resources	\$ 1,511,116	\$ 638,127	\$ 872,989
Long -Term Liabilities	\$ 7,928,532	\$ 8,222,436	\$ 293,904
Other Liabilities	4,458,880	2,868,507	(1,590,373)
Total Liabilities	\$ 12,387,412	\$ 11,090,943	\$ (1,296,469)
Deferred Inflows of Resources	\$ 660,135	\$ 412,389	\$ (247,746)
Net Position:			
Net Investment in Capital Assets	\$ 27,234,780	\$ 25,734,747	\$ 1,500,033
Restricted	353,914	183,681	170,233
Unrestricted	5,013,725	6,884,062	(1,870,337)
Total Net Position	\$ 32,602,419	\$ 32,802,490	\$ (200,071)

The following table provides a summary of the District's operations for the years ending September 30, 2021, and September 30, 2020. The District's net position decreased by \$200,071.

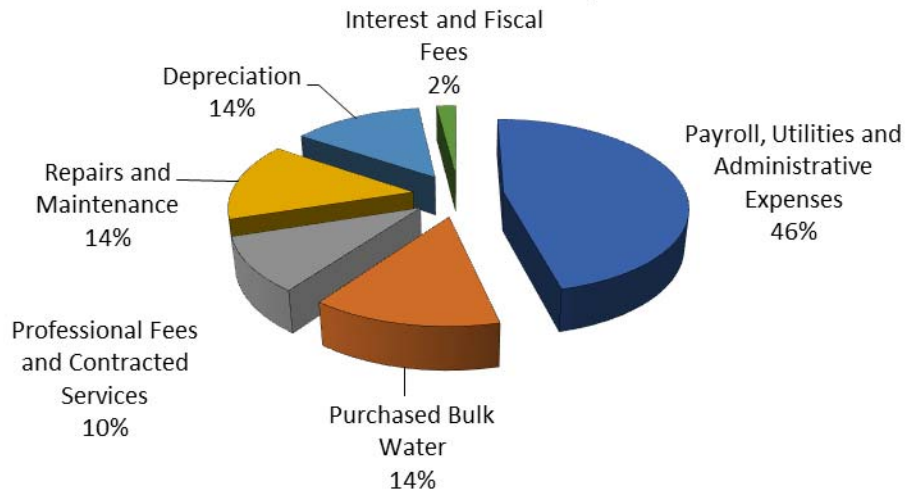
	Summary of Changes in the Statement of Activities		
	2021	2020	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,553,839	\$ 1,437,319	\$ 116,520
Charges for Services	8,445,112	8,226,582	218,530
Grant Revenues	40,933	127,592	(86,659)
Other Revenues	159,668	163,464	(3,796)
Total Revenues	\$ 10,199,552	\$ 9,954,957	\$ 244,595
Expenses for Services	10,399,623	9,347,482	(1,052,141)
Change in Net Position	\$ (200,071)	\$ 607,475	\$ (807,546)
Net Position, Beginning of Year	32,802,490	32,195,015	607,475
Net Position, End of Year	\$ 32,602,419	\$ 32,802,490	\$ (200,071)

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

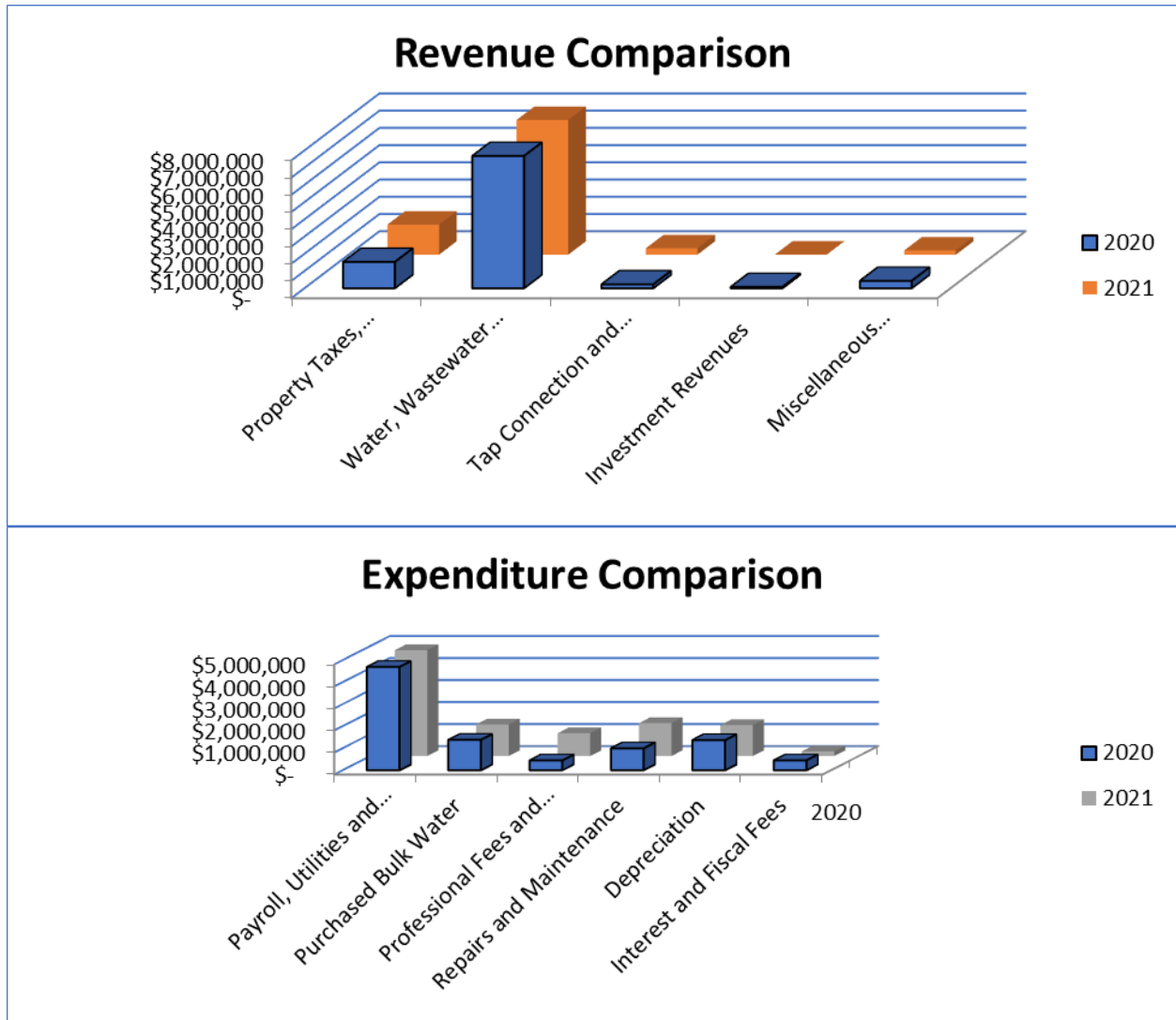
Governmental Revenues



Governmental Expenses



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**



**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2021, were \$6,459,471, a decrease of \$3,548,205 from the prior year.

The General Fund fund balance decreased by \$1,893,996, primarily due to operating and administrative expenditures exceeding service revenues and a transfer to the Debt Service Fund.

The Debt Service Fund fund balance increased by \$186,018, primarily due to the structure of the District's outstanding debt, and a transfer from the General Fund.

The Capital Projects Fund fund balance decreased by \$1,840,227, primarily due to payment of current capital outlay costs from proceeds of bonds issued in a prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the fiscal year to increase expected solid waste revenues. Actual revenues were \$296,291 more than budgeted revenues primarily due to higher than expected tap revenues and penalty and interest revenues. Actual expenditures were \$2,190,287 higher than budgeted expenditures primarily due to greater than expected capital outlay costs, contracted services and repairs and maintenance costs.

LONG-TERM DEBT ACTIVITY

As of the fiscal year end, the District had total bond debt payable of \$7,075,000. The changes in the debt position of the District during the fiscal year ended September 30, 2021, are summarized as follows:

Bond Debt Payable, October 1, 2020	\$ 7,285,000
Less: Bond Principal Paid	<u>210,000</u>
Bond Debt Payable, September 30, 2021	<u>\$ 7,075,000</u>

Standard and Poor's has issued a rating of "A-" to the Series 2016 Unlimited Tax Bonds and "A+" to the Series 2020 Refunding Revenue Notes. The Series 2016 Unlimited Tax Bonds and the Series 2020 Revenue Refunding Notes carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. The above ratings are as of September 30, 2021 and reflect all rating changes through the fiscal year-end.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED SEPTEMBER 30, 2021**

CAPITAL ASSETS

Capital assets as of September 30, 2021, total \$34,651,937 (net of accumulated depreciation), and include land, buildings and equipment as well as the water and wastewater systems. Significant capital asset activity during the current fiscal year included three 12-inch water lines crossing Dickinson Bayou, 16-inch sewer main replacement at Park Avenue, water line repairs, sewer line rehabilitation and repairs, two vehicles, and generators. Additional information on the District's capital assets can be found in Note 6.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2021	2020	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 115,316	\$ 115,316	\$
Construction in Progress	3,953,787	2,025,999	1,927,788
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	246,056	263,094	(17,038)
Vehicles	766,313	717,355	48,958
Equipment	531,103	157,086	374,017
Water System	9,599,077	8,866,093	732,984
Wastewater System	19,440,285	19,454,239	(13,954)
Total Net Capital Assets	<u>\$ 34,651,937</u>	<u>\$ 31,599,182</u>	<u>\$ 3,052,755</u>

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Galveston County Water Control and Improvement District No. 1, P. O. Box 307, Dickinson, Texas 77539.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2021**

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 1,405,013	\$ 198,822
Investments	5,750,434	79,800
Receivables:		
Property Taxes (Net of Allowance of \$36,351)	72,063	48,954
Penalty and Interest on Delinquent Taxes	38,532	48,951
Service Accounts (Net of Allowance for Doubtful Accounts of \$46,392)	586,132	
Prepaid Costs	70,771	
Inventory	311,828	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 8,234,773</u>	<u>\$ 376,527</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$	\$
Deferred Other Postemployment Benefit Charges		
Deferred Charges on Refunding Bonds		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -0-</u>	<u>\$ -0-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,234,773</u>	<u>\$ 376,527</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 852,121	\$ 1,603,835	\$	\$ 1,603,835
	6,682,355		6,682,355
	121,017		121,017
	87,483		87,483
	586,132		586,132
	70,771	23,492	94,263
	311,828		311,828
		115,316	115,316
		3,953,787	3,953,787
		30,582,834	30,582,834
<u>\$ 852,121</u>	<u>\$ 9,463,421</u>	<u>\$ 34,675,429</u>	<u>\$ 44,138,850</u>
\$	\$	\$ 1,329,134	\$ 1,329,134
		40,349	40,349
		141,633	141,633
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,511,116</u>	<u>\$ 1,511,116</u>
<u>\$ 852,121</u>	<u>\$ 9,463,421</u>	<u>\$ 36,186,545</u>	<u>\$ 45,649,966</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2021**

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 1,299,643	\$
Accrued Interest Payable		
Security Deposits	1,218,420	
Net Pension Liability		
Net Other Postemployment Benefit Liability		
Long-Term Liabilities:		
Compensated Absences, Due Within One Year		
Bonds/Notes Payable, Due Within One Year		
Bonds/Notes Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 2,518,063</u>	<u>\$ -0-</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 72,063	\$ 48,954
Penalty and Interest on Delinquent Taxes	38,532	48,951
Office Lease	8	
Deferred Pension Plan Charges		
Deferred Other Postemployment Benefit Charges		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 110,603</u>	<u>\$ 97,905</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 70,771	\$
Inventory	311,828	
Restricted for Authorized Construction		
Restricted for Debt Service		278,622
Committed:		
Capital Maintenance Projects	350,000	
Capital Asset-Software	250,000	
Vehicle Replacement	99,915	
System Maintenance	1,732,553	
Self-Insured Insurance	108,088	
Unassigned	2,682,952	
TOTAL FUND BALANCES	<u>\$ 5,606,107</u>	<u>\$ 278,622</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 8,234,773</u>	<u>\$ 376,527</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 277,379	\$ 1,577,022	\$	\$ 1,577,022
		22,613	22,613
	1,218,420		1,218,420
		1,038,732	1,038,732
		138,616	138,616
		258,477	258,477
		205,000	205,000
		7,928,532	7,928,532
<u>\$ 277,379</u>	<u>\$ 2,795,442</u>	<u>\$ 9,591,970</u>	<u>\$ 12,387,412</u>
\$	\$ 121,017	\$ (121,017)	\$
	87,483	(87,483)	
	8		8
		652,918	652,918
		7,209	7,209
<u>\$ -0-</u>	<u>\$ 208,508</u>	<u>\$ 451,627</u>	<u>\$ 660,135</u>
\$	\$ 70,771	\$ (70,771)	\$
	311,828	(311,828)	
574,742	574,742	(574,742)	
	278,622	(278,622)	
	350,000	(350,000)	
	250,000	(250,000)	
	99,915	(99,915)	
	1,732,553	(1,732,553)	
	108,088	(108,088)	
	2,682,952	(2,682,952)	
<u>\$ 574,742</u>	<u>\$ 6,459,471</u>	<u>\$ (6,459,471)</u>	<u>\$ - 0 -</u>
<u>\$ 852,121</u>	<u>\$ 9,463,421</u>		
		\$ 27,234,780	\$ 27,234,780
		353,914	353,914
		5,013,725	5,013,725
		<u>\$ 32,602,419</u>	<u>\$ 32,602,419</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

Total Fund Balances - Governmental Funds	\$	6,459,471
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Bond insurance paid at closing is amortized over the repayment period of the related bonds in the governmental activities.

23,492

The difference between the net carrying amount of refunded bonds and the reacquisition price is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

141,633

Certain pension plan charges and other postemployment benefit charges that are not immediately recognized are recorded as deferred inflows or deferred outflows of resources.

709,356

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.

34,651,937

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2020 and prior tax levies became part of recognized revenue in the governmental activities of the District.

208,500

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

Compensated Absences	\$	(258,477)	
Accrued Interest Payable		(22,613)	
Net Pension Liability		(1,038,732)	
Net Other Postemployment Benefit Liability		(138,616)	
Bonds/Notes Payable Within One Year		(205,000)	
Bonds/Notes Payable After One Year		<u>(7,928,532)</u>	<u>(9,591,970)</u>

Total Net Position - Governmental Activities	\$	<u>32,602,419</u>
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The accompanying notes to the financial
statements are an integral part of this report.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 1,277,555	\$ 286,450
Water Service	3,939,854	
Wastewater Service	3,583,044	
Texas City Maintenance Fees	23,439	
Out of District Surcharge	38,071	
Grant Revenues	40,933	
Solid Waste Revenues-District Portion	298,121	
Penalty and Interest	172,663	26,061
Tap Connection and Inspection Fees	370,490	
Investment Revenues	12,924	44
Miscellaneous Revenues	145,572	
TOTAL REVENUES	<u>\$ 9,902,666</u>	<u>\$ 312,555</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Payroll	\$ 3,664,990	\$
Purchased Bulk Water	1,433,794	
Professional Fees	103,423	
Contracted Services	911,832	25,073
Repairs and Maintenance	1,498,230	
Utilities	350,991	
Administrative Expenses	821,934	506
Depreciation		
Capital Outlay	2,619,958	
Debt Service:		
Bond Principal		210,000
Bond Interest		282,468
TOTAL EXPENDITURES/EXPENSES	<u>\$ 11,405,152</u>	<u>\$ 518,047</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (1,502,486)</u>	<u>\$ (205,492)</u>
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (391,510)	\$ 391,510
NET CHANGE IN FUND BALANCES	\$ (1,893,996)	\$ 186,018
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION		
OCTOBER 1, 2020	<u>7,500,103</u>	<u>92,604</u>
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2021	<u><u>\$ 5,606,107</u></u>	<u><u>\$ 278,622</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,564,005	\$ (10,166)	\$ 1,553,839
	3,939,854		3,939,854
	3,583,044		3,583,044
	23,439		23,439
	38,071		38,071
	40,933		40,933
	298,121		298,121
	198,724	(6,631)	192,093
	370,490		370,490
1,128	14,096		14,096
	145,572		145,572
<u>\$ 1,128</u>	<u>\$ 10,216,349</u>	<u>\$ (16,797)</u>	<u>\$ 10,199,552</u>
\$	\$ 3,664,990	\$ (30,020)	\$ 3,634,970
	1,433,794		1,433,794
	103,423		103,423
	936,905		936,905
	1,498,230		1,498,230
	350,991		350,991
	822,440		822,440
		1,408,558	1,408,558
1,841,355	4,461,313	(4,461,313)	
	210,000	(210,000)	
	282,468	(72,156)	210,312
<u>\$ 1,841,355</u>	<u>\$ 13,764,554</u>	<u>\$ (3,364,931)</u>	<u>\$ 10,399,623</u>
<u>\$ (1,840,227)</u>	<u>\$ (3,548,205)</u>	<u>\$ 3,348,134</u>	<u>\$ (200,071)</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ (1,840,227)	\$ (3,548,205)	\$ 3,548,205	\$
		(200,071)	(200,071)
<u>2,414,969</u>	<u>10,007,676</u>	<u>22,794,814</u>	<u>32,802,490</u>
<u>\$ 574,742</u>	<u>\$ 6,459,471</u>	<u>\$ 26,142,948</u>	<u>\$ 32,602,419</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Net Change in Fund Balances - Governmental Funds	\$ (3,548,205)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(10,166)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	(6,631)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(1,408,558)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	4,461,313
The changes in the net pension liability, deferred pension plan charges, other postemployment benefit changes, and compensated absences payable are reflected as an expense in the government-wide financial statements.	30,020
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	210,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	72,156
Change in Net Position - Governmental Activities	<u>\$ (200,071)</u>

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 1. CREATION OF DISTRICT

Galveston County Water Control and Improvement District No. 1 of Galveston County, Texas (the "District") was created in July 1938 by the Galveston County Commissioner's Court as a Fresh Water Supply District. On February 3, 1939, the District was converted to a Water Control and Improvement District under provisions of Article 7880-143 of the Revised Civil Statutes of the State of Texas. Pursuant to the provisions of Chapter 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, and storm sewer drainage. The District is also empowered to contract for or operate and maintain a fire department to perform all fire-fighting activities within the District. The District provides water, wastewater and solid waste disposal services at this time. The Board of Directors held its first meeting on July 9, 1938, and the first bonds were sold on February 8, 1939.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds. All of the governmental funds are considered major funds.

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

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

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

Basis of Accounting

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

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

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$20,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Buildings are amortized over a period of 40 years. Water and wastewater facilities are amortized over periods ranging from 10 to 45 years. Vehicles and equipment are amortized over periods ranging from 3 to 20 years.

Inventory

Inventory consisting of supplies and materials are stated at cost. Inventory, used for the maintenance and operations of the water and sewer facilities, are recorded as expenditures when the supplies and materials are purchased. A portion of the fund balance is recorded as nonspendable to reflect inventory quantities considered necessary for the District's continuing operations, generally in an amount equal to inventory values on hand at the end of the fiscal year.

Budgeting

An annual unappropriated budget is adopted for all funds by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current fiscal year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

For employees of the District, a pension plan has been established and is managed by an independent plan administrator (see Note 9). The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only. Directors do not participate in the pension plan.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. In October 2011 and by action in fiscal year 2013, the Board committed a portion of the fund balance to System Maintenance, Capital Maintenance Projects in the amount of \$350,000, Self-Insured Insurances, Vehicle Replacement in the amount of \$300,000, and Capital Asset-Software in the amount of \$250,000. Due to board approved activity in fiscal year 2015, the Vehicle Replacement portion equals \$99,915. The dollar amounts for System Maintenance and Self-Insured Insurances were set by current year activity. See Notes 8 and 13.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has no assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. BONDS AND REVENUE NOTES PAYABLE

	Series 2016 Tax Bonds	Series 2020 Refunding Revenue Notes
Amount Outstanding - September 30, 2021	\$ 2,050,000	\$ 5,025,000
Interest Rates	2.50% - 4.00%	2.00% - 5.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2022/2031	March 1, 2023/2034
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2025*	March 1, 2029*

* Or any date thereafter, in whole or in part, in any order to be determined by the District, at a redemption price of par plus accrued interest to the redemption date. Series 2016 term bonds maturing on March 1, 2027, March 1, 2029, and March 1, 2031, are subject to mandatory redemption by random selection beginning March 1, 2026, March 1, 2028, and March 1, 2030, respectively.

On May 9, 2015, the voters of the District approved the authorization of an additional \$9,200,000 in original tax bonds. The District has issued \$28,275,500 of its available bond authorization of \$33,985,500.

The Series 2016 bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2020 Refunding Revenue Notes constitute special obligations of the District that shall be payable solely from, and shall be equally and ratably secured by a first lien on the net revenues, as collected and received by the District, from the operation and ownership of the system, which net revenues shall, in the manner herein provided, be set aside for and pledged to the payment of the notes in the Debt Service Fund and Reserve Fund.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 3. BONDS AND REVENUE NOTES PAYABLE (Continued)

The following is a summary of transactions regarding bonds and revenue notes payable for the year ended September 30, 2021:

	October 1, 2020	Additions	Retirements	September 30, 2021
Bonds/Notes Payable	\$ 7,285,000	\$	\$ 210,000	\$ 7,075,000
Unamortized Premiums	1,147,436		88,904	1,058,532
Bonds/Notes Payable, Net	<u>\$ 8,432,436</u>	<u>\$ -0-</u>	<u>\$ 298,904</u>	<u>\$ 8,133,532</u>
			Amount Due Within One Year	\$ 205,000
			Amount Due After One Year	<u>7,928,532</u>
			Bonds/Notes Payable, Net	<u>\$ 8,133,532</u>

As of September 30, 2021, the debt service requirements on the bonds and notes outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2022	\$ 205,000	\$ 267,275	\$ 472,275
2023	525,000	251,075	776,075
2024	540,000	226,500	766,500
2025	555,000	201,175	756,175
2026	580,000	176,387	756,387
2027-2031	3,185,000	499,788	3,684,788
2032-2034	<u>1,485,000</u>	<u>47,375</u>	<u>1,532,375</u>
	<u>\$ 7,075,000</u>	<u>\$ 1,669,575</u>	<u>\$ 8,744,575</u>

During the current fiscal year, the District levied an ad valorem debt service tax rate of \$0.020776 per \$100 of assessed valuation, which resulted in a tax levy of \$277,529 on the adjusted taxable valuation of \$1,359,192,659 for the 2020 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for maintenance tax levy.

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The resolutions authorizing the sale of the 2020 Refunding Revenue Notes do not require but the District may pay into a reserve fund approximately equal monthly installment amounts sufficient to accumulate within 60 months to the reserve fund requirement. The reserve fund requirement is defined as the average annual principal and interest requirements of the outstanding notes. The reserve fund requirement may be redetermined each year by the District. The District is in compliance with the resolutions.

The 2016 Bond Resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided through the life of the bonds.

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,603,835 and the bank balance was \$1,616,054. The District was not exposed to custodial credit risk as of the fiscal year-end.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2021, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 1,405,013
DEBT SERVICE FUND	<u>198,822</u>
TOTAL DEPOSITS	<u>\$ 1,603,835</u>

Investments

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

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

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2021, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 5,750,434	\$ 5,750,434
<u>DEBT SERVICE FUND</u>		
TexPool	79,800	79,800
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>852,121</u>	<u>852,121</u>
TOTAL INVESTMENTS	<u>\$ 6,682,355</u>	<u>\$ 6,682,355</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2021, the District's investment in TexPool was rated AAAM by Standard and Poor's. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021:

	October 1, 2020	Increases	Decreases	September 30, 2021
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 115,316	\$	\$	\$ 115,316
Construction in Progress	<u>2,025,999</u>	<u>4,461,313</u>	<u>2,533,525</u>	<u>3,953,787</u>
Total Capital Assets Not Being Depreciated	<u>\$ 2,141,315</u>	<u>\$ 4,461,313</u>	<u>\$ 2,533,525</u>	<u>\$ 4,069,103</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 689,274	\$	\$	\$ 689,274
Vehicles	2,231,428	136,598		2,368,026
Equipment	1,134,899	418,963		1,553,862
Water System	21,427,616	1,174,265		22,601,881
Wastewater System	<u>37,090,811</u>	<u>803,699</u>		<u>37,894,510</u>
Total Capital Assets Subject to Depreciation	<u>\$ 62,574,028</u>	<u>\$ 2,533,525</u>	<u>\$ - 0 -</u>	<u>\$ 65,107,553</u>
Accumulated Depreciation				
Buildings and Improvements	\$ 426,180	\$ 17,038	\$	\$ 443,218
Vehicles	1,514,073	87,640		1,601,713
Equipment	977,813	44,946		1,022,759
Water System	12,561,523	441,281		13,002,804
Wastewater System	<u>17,636,572</u>	<u>817,653</u>		<u>18,454,225</u>
Total Accumulated Depreciation	<u>\$ 33,116,161</u>	<u>\$ 1,408,558</u>	<u>\$ - 0 -</u>	<u>\$ 34,524,719</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 29,457,867</u>	<u>\$ 1,124,967</u>	<u>\$ - 0 -</u>	<u>\$ 30,582,834</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,599,182</u>	<u>\$ 5,586,280</u>	<u>\$ 2,533,525</u>	<u>\$ 34,651,937</u>

NOTE 7. MAINTENANCE TAX

On November 2, 1993, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the District. On May 9, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.095778 per \$100 of assessed valuation, which resulted in a tax levy of \$1,279,416 on the adjusted taxable valuation of \$1,359,192,659 for the 2020 tax year.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 8. EMPLOYER-FUNDED INSURANCE BENEFITS

Effective February 2021, the District implemented a Health Reimbursement Arrangement (HRA) plan to cover qualified medical, dental and vision expenses for its employees up to a fixed dollar amount per year. At the time of enrollment, employees are provided with a reimbursement amount that is tax-free and is based on the employee's elected medical insurance coverage level. All employees in the same coverage level receives the same HRA contribution. Unused amounts do not roll over from one year to the next but remain with the District.

Prior to implementation of the new HRA plan, in March 2019, the District replaced the self-insured medical deductible reimbursement plan with a group hospital confinement indemnity insurance plan administered by an external insurance provider. The employer-funded plan reimburses eligible medical out-of-pocket expenses to employees. This plan will be discontinued January 2022. An earlier modification to the employer provided insurance benefits happened in December 2015, the District replaced the self-insured group insurance benefits for dental and vision with an external insurance provider. Reimbursements for orthodontics continue to be an employer self-insured benefit with established limits and eligible requirements.

The District commits a discretionary amount each month which is reported as a commitment of fund balance. Employees contribute for dependent coverage. The commitment of the employer provided insurance fund balance as of September 30, 2021 is as follows:

Self-Insured Plans	
Committed as of October 1, 2020	\$ 112,868
Contributions	9,979
Claims	<u>(14,759)</u>
Committed as of September 30, 2021	<u>\$ 108,088</u>

NOTE 9. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide 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. TCDRS issues a publicly available comprehensive annual financial report (CAFR) which includes financial statements, notes and required supplementary information which can be obtained at TCDRS, Finance Division, Barton Oaks Plaza IV Suite 500, 901 S. MoPac Expressway, Austin, Texas 78746 or at www.TCDRS.org.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 9. PENSION PLAN (Continued)

Plan Description (Continued)

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 ages 60 and above with 8 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 8 years of service but must leave their accumulated contributions in 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.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. 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 commitment to contribute. At retirement, death, or disability, 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 prescribed by the TCDRS Act.

At the valuation date of December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>17</u>
Inactive employees entitled but not yet receiving benefits	<u>25</u>
Active employees	<u>42</u>

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan 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 is actuarially determined annually.

The employer has elected to pay a 1.5% higher rate to reduce the Unfunded Accrued Actuarial Liability (UAAL). The required employer contribution rate was 11.31% for the months of the accounting year 2020 and 11.31% for the accounting year 2021; however, the employer actually contributed using the actuarially determined rate of 12.81%, for the months of the accounting year 2020 and 12.81% for the accounting year 2021.

The contribution rate payable by the employee members for calendar year 2020 and 2021 is 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 9. PENSION PLAN (Continued)

Annual Pension Cost

For the employer's accounting year ending September 30, 2021, the annual pension cost for the TCDRS plan for its employees was \$277,779, and the actual contributions were \$314,620.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with GASB parameters based on the actuarial valuations as of December 31, 2020, the basis for determining the contribution rates for calendar year 2021. The December 31, 2020 actuarial valuation is the most recent valuation.

	Actuarial Valuation Information		
Actuarial valuation date	12/31/18	12/31/19	12/31/20
Actuarial cost method	entry age	entry age	entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	10.5	10.7	20.0
Asset Valuation Method:			
Subdivision Accumulation	5-year smoothed	5-year smoothed	5-year smoothed
Fund	market	market	market
Actuarial Assumptions:			
Investment return ¹	8.0%	8.0%	7.6%
Projected salary increases ¹	4.9%	4.9%	4.6%
Inflation	2.75%	2.75%	2.50%
Cost-of-living adjustments	0.0%	2.0%	2.0%

¹Includes inflation at the stated rate

Net Pension Liability

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions above, except as noted. The discount rate reflects the long-term rate of return funding valuation assumption of 7.50%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. The actuarial assumptions that determined the total pension liability as of December 31, 2020 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016.

Mortality rates were based on the following: 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The numbers shown are based on January 2021 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon. The most recent analysis was performed in March 2021.

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	11.50 %	4.25 %
Private Equity	25.00	7.25
Global Equities	2.50	4.55
International Equities-Developed Markets	5.00	4.25
International Equities-Emerging Markets	6.00	4.75
Investment-Grade Bonds	3.00	(0.85)
Strategic Credit	9.00	2.11
Direct Lending	16.00	6.70
Distressed Debt	4.00	5.70
REIT Equities	2.00	3.45
Master Limited Partnerships (MLPs)	2.00	5.10
Private Real Estate Partnerships	6.00	4.90
Hedge Funds	6.00	1.85
90 day US Treasury	2.00	(0.70)
	100.00 %	

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 9. PENSION PLAN (Continued)

Net Pension Liability (Continued)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances of December 31, 2019	\$ 17,548,931	\$ 17,102,711	\$ 446,220
Changes for the year:			
Service Costs	305,299		305,299
Interest on total pension liability	1,427,877		1,427,877
Effect of economic/demographic gains or losses	(53,445)		(53,445)
Effect of assumption changes or inputs	1,147,623		1,147,623
Refund of contributions	(21,141)	(21,141)	
Benefit payments	(440,083)	(440,083)	
Administrative Expense		(13,812)	13,812
Member contributions		169,454	(169,454)
Net investment income		1,766,862	(1,766,862)
Employer contributions		310,101	(310,101)
Other		2,237	(2,237)
Balances of December 31, 2020	<u>\$ 19,915,061</u>	<u>\$ 18,876,329</u>	<u>\$ 1,038,732</u>

Sensitivity Analysis - The following presents the net pension liability of the District, calculated using the discount rate of 7.60%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease 6.6%	Current Discount Rate 7.6%	1% Increase 8.6%
Total pension liability	\$ 22,529,777	\$ 19,915,061	\$ 17,698,047
Piduciary net position	<u>18,876,329</u>	<u>18,876,329</u>	<u>18,876,329</u>
Net pension liability/(asset)	<u>\$ 3,653,448</u>	<u>\$ 1,038,732</u>	<u>\$ (1,178,282)</u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 9. PENSION PLAN (Continued)

At the valuation date of December 31, 2020, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 58,998	\$ 42,756
Changes of assumptions	918,098	
Net differences between projected and actual earnings		610,162
Contributions subsequent to the measurement date	352,038	
Total	<u>\$ 1,329,134</u>	<u>\$ 652,918</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2021	\$ 402,244
2022	216,465
2023	(85,073)
2024	142,580
2025	-0-
Thereafter	-0-

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$352,038, which are recorded as deferred outflows of resources.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description - Group Term Life Program

The District participates in the retiree Group Term Life program for the Texas County & District Retirement System (TCDRS), which is a statewide, multiple-employer, public employee retirement system. All full-time 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 TCERS OPEB 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. Other plan specifics include: 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 TCERS 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Plan Description - Group Term Life Program (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. Benefit terms are established under the TCDRS Act. For the months of the accounting years 2020, the required employer contribution rate was 0.34%; and for the months of the accounting years 2021 the required employer contribution rate was 0.39%. The District's contributions to the GTL program for the fiscal year ending September 30, 2021, were \$9,239.

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.

TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System; P.O. Box 2034, Austin, TX 78768-2034, or by calling 800-823-7782.

The retiree death benefit paid from the GTL program is an OPEB benefit. The OPEB program is treated as an unfunded trust, because the GTL trust covers both actives and retirees and is not segregated. At the valuation date of December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>17</u>
Inactive employees entitled but not yet receiving benefits	<u>12</u>
Active employees	<u>42</u>

Actuarial Methods and Assumptions Used for GASB Calculations

All actuarial assumptions and methods that determined the total OPEB liability as of December 31, 2020 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, except where required to be different by GASB 75.

Valuation Timing - 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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions Used for GASB Calculations (Continued)

Actuarial Cost - Method Entry Age Normal

Amortization Method

- *Recognition of economic/demographic gains or losses* - Straight-Line amortization over Expected Working Life
- *Recognition of assumptions changes or inputs* - Straight-Line amortization over Expected Working Life

Asset Valuation Method - Does not apply

Inflation - Does not apply

Salary Increases - Does not apply

Investment Rate of Return (Discount Rate) - 2.12% 20 Year Bond GO Index published by bondbuyer.com as of December 31, 2020

Cost-of-Living Adjustment - Does not apply

Mortality rates were based on the following:

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.

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.

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.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate

The total OPEB liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions discussed below. The discount rate reflects the long-term rate of return funding valuation assumption of 2.12%. The TCDRS GTL program is treated as an 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 2.12% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2020. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end.

	Changes in Total OPEB Liability
Balances of December 31, 2019	\$ 124,504
Changes for the year:	
Service Costs	2,720
Interest on total OPEB liability	3,427
Effect of economic/demographic gains or losses	(2,096)
Effect of assumption changes or inputs	14,418
Benefit payments	(4,357)
Balances of December 31, 2020	\$ 138,616

Sensitivity Analysis - The following presents the total OPEB liability of the District, calculated using the discount rate of 2.12%, as well as what the District total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.12%) or 1 percentage point higher (3.12%) than the current rate.

	1% Decrease 1.12%	Current Discount Rate 2.12%	1% Increase 3.12%
Total OPEB liability	\$ 167,287	\$ 138,616	\$ 116,408

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

At the valuation date of December 31, 2020, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,774	\$ 1,747
Changes of assumptions	28,644	5,462
Contributions subsequent to the measurement date	6,931	
Total	<u>\$ 40,349</u>	<u>\$ 7,209</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2021	\$	14,887
2022		7,957
2023		6,190
2024		2,054
2025		2,052
Thereafter		-0-

The District made plan contributions subsequent to the measurement date and prior to the fiscal year-end of \$6,931, which are recorded as deferred outflows of resources.

NOTE 11. CONTRACTS FOR WATER AND SEWER SERVICES

LEAGUE CITY CONTRACT

On October 19, 2009, the District executed an amendment to the January 1, 1987, Revised Water Supply Agreement with the City. The amendment was effective December 8, 2009 and permits the District to sell and deliver to the City, upon their request, 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided the District has excess water available.

Excess available water is defined as any water capacity remaining to the District after the District's per day consumption deducted from 2.937 million gallons per day, the District's current take or pay amount. The District's water capacity use shall be primary, and the City shall only be entitled to any remaining excess capacity if available. In the event that the District's water pressure falls below 40 psi the District has the right to curtail the sale of water and delivery to the City. The City shall pay the agreed upon sum of \$1.95 per 1,000 gallons water taken. All other terms, conditions and provisions in the January 1, 1987 Revised Water Supply Agreement remains in place and continued to have full force and effect until either the District or the City gives a 30-day written notice for termination. No actual sale of water has taken place since February 2017.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 11. CONTRACTS FOR WATER AND SEWER SERVICES Continued)

TEXAS CITY CONTRACT

On September 17, 1990, the District executed an Out-Of-District Water and Sewer Agreement with the City of Texas City ("Texas City"). The agreement provides for the District to provide water and sewer service to multiple tracts of land in Texas City since the land is closer to utilities available from the District. Per the District's Rate Order, out-of-district customers pay 150% of water and sewer fees of in-district customers. Under this agreement, Texas City residents purchasing water and sewer from the District will pay 100% of the in-district water and sewer fees and Texas City will pay the additional 50%. This 30-year agreement expired September 30, 2020. The District has made verbal arrangements with Texas City to continue the terms of the agreement until further notice. For the year ended September 30, 2021, Texas City paid the District \$23,439 for these services.

NOTE 12. SURFACE WATER SUPPLY CONTRACT

The District's water supply is obtained through a wholesale water supply contract with the Gulf Coast Water Authority. On August 7, 1981, the District executed The Mainland Water Project Customer Contract with the Galveston County Water Authority, presently known as the Gulf Coast Water Authority (the "Authority"), for 1,500,000 gallons per day of treated surface water. The purpose of that agreement was to convert the District from ground water to surface water in response to the growing problem of land subsidence throughout Galveston County and surrounding counties. On May 19, 1983, the District and the Authority agreed to increase the reserve contract quantity to 2,500,000 gallons per day. The Mainland Project at that time included a surface water treatment plant with a capacity of 18,000,000 gallons per day which has subsequently been expanded to 57,600,000 gallons per day. Originally, this surface water supply was only received by the District near its east boundary line and then distributed throughout the District via the District's own distribution system, however today the District is also connected to the Authority's transmission lines near its western boundary on the Highway 6 extension.

Effective July 1, 1986, the District increased its reserved capacity from 2,500,000 to 3,500,000 gallons per day in the original Mainland Project. This action was taken by the District in order for it to sell up to 1,000,000 gallons per day of surface water to the City of League City (See Note 11).

Effective June 18, 1998, the Authority initiated a contract to construct the South Project to furnish water to Galveston Island and the Highway 6 communities of Tiki Island, Bayou Vista, Hitchcock, and Galveston County WCID No. 8 in Santa Fe, Texas. The Highway 6 transmission line further extends northward to furnish water to the City of League City, Texas.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 12. SURFACE WATER SUPPLY CONTRACT (Continued)

On September 19, 2000, the District agreed to accept an additional 665,000 gallons per day of the Authority's remaining capacity in their surface water plant. Therefore, the total reserved capacity the District now has in the Authority's water treatment plant is 4,165,000 gallons per day.

On August 15, 2002, and as amended May 15, 2014, the District signed a separate contract with the Authority to transfer 500,000 gallons per day from its east side take point reserve contract quantity to its west side take point reserve contract quantity.

Effective April 21, 2014, the Authority and District signed an amendment which moved the operation and maintenance cost of the surface water treatment plant from a take or pay formula to pay for what you take; intended to reward customers of the Authority who encourage water conservation by their customers. This contract extended the life of the original agreement to December 31, 2027.

The District paid \$1,433,794 for treated water delivered to the District in the current year.

NOTE 13. SYSTEM MAINTENANCE OF THE WATER AND SEWER SYSTEM

The District has committed maintenance tax proceeds to fund the cost of system maintenance. On October 1, 2020, the reserve was \$2,382,835. In the current fiscal year, the reserved fund generated \$1,345,426 in total revenue including maintenance tax revenues of \$1,277,555. Expenditures of the fund for system maintenance were \$1,955,844, offset by insurance recovery of \$9,309, and there was a transfer of \$39,864 to the General Fund, resulting in a committed fund balance at the fiscal year-end of \$1,732,553.

NOTE 14. COMPENSATED ABSENCES

It is the policy of the District that employees in full-time positions will be eligible for sick leave, compensatory time, vacations, holidays, funerals, administrative leave, and jury duty with full straight-time pay. Full-time employees eligible for sick leave will be allowed to accumulate 6.67 hours for each month of service or 10 days per year not to exceed 960 hours (120 days) as long as the District employs them. However, any employee who has 960 hours (120 days) accumulated on January 1 of each year will be allowed to utilize up to 120 hours (15 days) of sick leave during that year without affecting the 960 hours (120 days) previously accumulated, but the maximum amount of sick leave hours that will be paid to employees in good standing at termination is limited to 160 hours (20 days). The District also allows accumulation of compensatory time not to exceed 40 hours (5 days). Full-time employees are allowed to accumulate vacation time upon approval of the General Manager. It is also the District's policy to prohibit the accumulation of hours for holidays, funerals, administrative leave and jury duty.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 14. COMPENSATED ABSENCES (Continued)

For the year ended September 30, 2021, the District has accrued \$258,477 in compensated absences.

Compensated Absences	
Accrued Compensated absences as of October 1, 2020	\$ 253,170
Additions	180,267
Payments	<u>(174,960)</u>
Accrued Compensated absences as of September 30, 2021	<u>\$ 258,477</u>

NOTE 15. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, mobile equipment, law enforcement, crime coverage, errors and omissions and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 16. OPERATING LEASE

In 2007 the District entered into a 22-year noncancelable operating lease with the City of Dickinson for office building space. Future minimum operating lease commitments are as follows:

Year Ending September 30	Amount
2022	\$ 86,965
2023	86,964
2024	86,964
2025	86,965
2026	86,964
2027-2028	<u>173,929</u>
Total	<u><u>\$ 608,751</u></u>

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 16. OPERATING LEASE (Continued)

Scheduled lease payments (“Base Rent”) are to be made annually through 2027. Upon final payment in 2027, the District agrees to pay as Base Rent, 29.18% of the insurance premiums and annual cost of and repairs to the Building until September 30, 2029, the end of the lease term. The Base Rent for the final two years of the lease is not included in the schedule above. The lease is automatically renewable for 15 years (for up to three terms or a total of 45 years) beginning at the conclusion of the original term. Rental expense for the fiscal year ended September 30, 2021 was \$86,965. District is responsible for paying its own utilities and other shared resources with the City including information technology and capital improvements.

At the time the District entered into the lease in 2007, it paid a \$150,000 advance payment. The pre-paid lease expense is to be amortized over the life of the lease as follows:

City of Dickinson City Hall/WCID NO. 1 Prepaid Lease	\$ 150,000
Amortization expense recognized as of September 30, 2021	97,500
Amounts to be recognized in the next five years and beyond:	
Rent Expense, 2022	\$ 7,500
Rent Expense, 2023	7,500
Rent Expense, 2024	7,500
Rent Expense, 2025	7,500
Rent Expense, 2026	7,500
Rent Expense to be recognized, thru 2028	<u>15,000</u>
Total Expense remaining to be recognized	<u>\$ 52,500</u>

NOTE 17. INTERFUND TRANSFERS

During the current fiscal year, the General Fund transferred \$391,510 to the Debt Service Fund to provide for a portion of the District’s debt service payments.

NOTE 18. GRANT PROGRAM

The City of Dickinson (the “City”) and the District were jointly awarded community development funds by the U.S. Department of Housing and Urban Development CDBG Program passed through the Texas Department of Agriculture. The funds were awarded under CFDA 14.228 under B-19-DC-48-0001 in the amount of \$350,000, to be used for water improvements. As of fiscal year-end, the District has not received any funds under this program. In January 2022, the City of Dickinson and the District formally requested withdrawal from this grant because the restrictions placed on the use of funds could not be met.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 18. GRANT PROGRAM (Continued)

On May 21, 2021, the Texas General Land Office Community Development and Revitalization division (GLO-CDR) approved the District's grant application for the Mitigation Harvey Round 1 HUD Most Impacted and Distressed Competition. The funds were awarded under the Community Development Block Grant Disaster Recovery (CDBG-DR) in the amount of \$8,107,920.79 to be used for water system improvements. The funds were awarded under contract 22-085-035-D279 and require a \$81,079 District match.

NOTE 19. FIRE PROTECTION SERVICES AGREEMENT

The Dickinson Volunteer Fire Department (VFD) provides fire protection services to the citizens of the District and the City of Dickinson. On July 18, 2016, the District executed a Fire Protection Services Agreement (Agreement) with the VFD. The District requested approval from the Texas Commission on Environmental Quality (the Commission) of a fire plan based upon the Agreement and, following Commission approval, submitted the Fire Plan and Agreement to voters for approval. The measure passed in an election November 7, 2017.

The VFD will continue to provide fire protection services as defined in the agreement to citizens within the VFD service area. The District will pay the VFD a monthly charge of \$5.00 for each residential connection and \$10.00 for each commercial or industrial connection, provided each customer has paid the District its current monthly payment. The District will bill its customers a monthly fee for fire protection equal to the amount to be paid to the VFD. The agreement will be in effect for 15 years with automatic one-year renewals. For the year ended September 30, 2021, the District's total collections remitted to VFD were \$514,269.

NOTE 20. SOLID WASTE SERVICES AGREEMENT

On December 9, 2019, the District executed an Interlocal Agreement for Solid Waste Management Services (SWMS) with the City of Dickinson to provide solid waste management services to all residential and commercial customers within the City of Dickinson. The District will contract with a solid waste collection service provider. The District will bill customers. From the amount collected, the District will pay the solid waste contractor, the District will retain a portion for an administrative fee, and the District will remit a portion to the City for a franchise fee. The SWMS agreement is for 4 years. For the year ended September 30, 2021, the District's total collections for solid waste services were \$2,100,086. This includes the District's revenue portion of \$298,121. Total Solid Waste Fund Balance included in General Funds is \$450,223.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

NOTE 21. ECONOMIC UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. Since that time, the District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19. The District will continue to carefully monitor the situation and evaluate the financial statement impact, if any, that results from the pandemic.

NOTE 22. SUBSEQUENT EVENT – BOND SALE

On October 18, 2021, subsequent to fiscal year-end, the District authorized application to the Commission for the sale of its \$5,710,000 Unlimited Tax Bonds, Series 2022. The Commission approved the sale January 5, 2022, subsequent to fiscal year-end. The bond sale is scheduled to occur February 22, 2022, subsequent to fiscal year-end. Proceeds of the bonds will be used to finance Lobit Water Plant elevated storage tank rehabilitation, 26th Street lift station force main replacement, County Barn and Hughes Lane lift stations rehabilitation, Wastewater treatment Plant process improvements, West Water Plant improvements, costs of related professional services, and certain bond issuance costs.

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2021

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 1,286,977	\$ 1,286,977	\$ 1,277,555	\$ (9,422)
Water Service	3,978,977	3,978,977	3,939,854	(39,123)
Wastewater Service	3,564,698	3,564,698	3,583,044	18,346
Texas City Maintenance Fees	28,110	28,110	23,439	(4,671)
Out of District Surcharge	40,144	40,144	38,071	(2,073)
Grant Revenues			40,933	40,933
Solid Waste Revenues-District Portion		301,800	298,121	(3,679)
Penalty and Interest	74,137	74,137	172,663	98,526
Tap Connection and Inspection Fees	206,300	206,300	370,490	164,190
Investment Revenues	40,932	40,932	12,924	(28,008)
Miscellaneous Revenues	84,300	84,300	145,572	61,272
TOTAL REVENUES	<u>\$ 9,304,575</u>	<u>\$ 9,606,375</u>	<u>\$ 9,902,666</u>	<u>\$ 296,291</u>
EXPENDITURES				
Service Operations:				
Payroll	\$ 3,811,693	\$ 3,811,693	\$ 3,664,990	\$ 146,703
Purchased Bulk Water	1,404,050	1,404,050	1,433,794	(29,744)
Professional Fees	53,000	53,000	103,423	(50,423)
Contracted Services	357,610	360,610	911,832	(551,222)
Repairs and Maintenance	1,093,745	1,093,745	1,498,230	(404,485)
Utilities	372,000	372,000	350,991	21,009
Administrative Expenses	718,823	718,823	821,934	(103,111)
Capital Outlay	1,400,944	1,400,944	2,619,958	(1,219,014)
TOTAL EXPENDITURES	<u>\$ 9,211,865</u>	<u>\$ 9,214,865</u>	<u>\$ 11,405,152</u>	<u>\$ (2,190,287)</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	<u>\$ 92,710</u>	<u>\$ 391,510</u>	<u>\$ (1,502,486)</u>	<u>\$ (1,893,996)</u>
OTHER FINANCING SOURCES(USES)				
Transfer (Out)	<u>\$ (391,510)</u>	<u>\$ (391,510)</u>	<u>\$ (391,510)</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (298,800)</u>	<u>\$ -0-</u>	<u>\$ (1,893,996)</u>	<u>\$ (1,893,996)</u>
FUND BALANCE - OCTOBER 1, 2020	<u>7,500,103</u>	<u>7,500,103</u>	<u>7,500,103</u>	
FUND BALANCE - SEPTEMBER 30, 2021	<u><u>\$ 7,201,303</u></u>	<u><u>\$ 7,500,103</u></u>	<u><u>\$ 5,606,107</u></u>	<u><u>\$ (1,893,996)</u></u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2021**

	Year Ended December 31,			
	2014	2015	2016	2017
Total Pension Liability				
Service Cost	\$ 260,251	\$ 257,071	\$ 285,375	\$ 289,323
Interest on total pension liability	896,243	975,992	1,041,383	1,135,127
Effect of plan changes		(41,727)		
Effect of economic/demographic (gains) or losses	106,808	(133,252)	30,556	72,527
Effect of assumption changes or inputs		85,000		(17,470)
Benefit payments/refunds of contributions	<u>(280,604)</u>	<u>(316,915)</u>	<u>(340,451)</u>	<u>(358,689)</u>
Net change in total pension liability	\$ 982,698	\$ 826,169	\$ 1,016,863	\$ 1,120,818
Total pension liability, beginning	<u>11,074,712</u>	<u>12,057,410</u>	<u>12,883,579</u>	<u>13,900,442</u>
Total pension liability, ending (a)	<u>\$ 12,057,410</u>	<u>\$ 12,883,579</u>	<u>\$ 13,900,442</u>	<u>\$ 15,021,260</u>
Fiduciary Net Position				
Employer contributions	\$ 256,264	\$ 246,203	\$ 455,136	\$ 295,113
Member contributions	134,876	137,433	141,855	155,909
Investment income net of investment expenses	733,079	(142,323)	863,525	1,873,387
Benefit payments/refunds of contributions	(280,604)	(316,915)	(340,451)	(358,689)
Administrative Expense	(8,707)	(8,420)	(9,383)	(9,830)
Other	<u>26,296</u>	<u>18,510</u>	<u>57,555</u>	<u>1,144</u>
Net change in fiduciary net position	\$ 861,204	\$ (65,512)	\$ 1,168,237	\$ 1,957,034
Fiduciary net position, beginning	<u>10,860,380</u>	<u>11,721,584</u>	<u>11,656,072</u>	<u>12,824,309</u>
Fiduciary net position, ending (b)	<u>\$ 11,721,584</u>	<u>\$ 11,656,072</u>	<u>\$ 12,824,309</u>	<u>\$ 14,781,343</u>
Net pension liability/(asset), ending = (a) - (b)	<u>\$ 335,826</u>	<u>\$ 1,227,507</u>	<u>\$ 1,076,133</u>	<u>\$ 239,917</u>
Fiduciary net position as a percentage of total pension liability	97.21%	90.47%	92.26%	98.40%
Pensionable covered payroll	\$ 1,926,799	\$ 1,963,335	\$ 2,026,501	\$ 2,227,272
Net pension liability as a percentage of covered payroll	17.43%	62.52%	53.10%	10.77%

See accompanying independent auditor's report.

2018	2019	2020
\$ 288,312	\$ 310,646	\$ 305,299
1,224,645	1,324,172	1,427,877
52,874		
31,391	77,401	(53,445)
0		1,147,623
(388,564)	(393,206)	(461,224)
\$ 1,208,658	\$ 1,319,013	\$ 2,366,130
15,021,260	16,229,918	17,548,931
<u>\$ 16,229,918</u>	<u>\$ 17,548,931</u>	<u>\$ 19,915,061</u>
\$ 374,536	\$ 298,526	\$ 310,101
150,726	163,896	169,454
(273,847)	2,403,782	1,766,862
(388,564)	(393,206)	(461,224)
(11,757)	(13,033)	(13,812)
5,557	4,752	2,237
\$ (143,349)	\$ 2,464,717	\$ 1,773,618
14,781,343	14,637,994	17,102,711
<u>\$ 14,637,994</u>	<u>\$ 17,102,711</u>	<u>\$ 18,876,329</u>
<u>\$ 1,591,924</u>	<u>\$ 446,220</u>	<u>\$ 1,038,732</u>
90.19%	97.46%	94.78%
\$ 2,153,225	\$ 2,341,376	\$ 2,420,772
73.93%	19.06%	42.91%

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS-PENSION
SEPTEMBER 30, 2021**

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	Actual Contribution as a Percentage of Covered Payroll
2016	\$ 231,832	\$ 260,794	\$ (28,962)	\$ 1,930,800	13.51%
2017	\$ 248,341	\$ 280,480	\$ (32,139)	\$ 2,142,613	13.09%
2018	\$ 239,482	\$ 271,011	\$ (31,529)	\$ 2,101,962	12.89%
2019	\$ 260,268	\$ 294,972	\$ (34,704)	\$ 2,313,602	12.75%
2020	\$ 272,966	\$ 309,222	\$ (36,256)	\$ 2,417,077	12.79%
2021	\$ 277,779	\$ 314,620	\$ (36,841)	\$ 2,456,052	12.81%

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

Valuation Date Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	20.0 years (based on contribution rate calculated in 12/31/2020 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.6% average over career including inflation.
Investment Rate of Return	7.60%, 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 of 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015, 2016, and 2020: No changes in plan provisions were reflected in the schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the schedule. 2019: Employer contributions reflect that a 2% flat COLA was adopted.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS
LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2021**

	Year Ended December 31,			
	2017	2018	2019	2020
Total OPEB Liability				
Service Cost	\$ 2,075	\$ 2,278	\$ 1,744	\$ 2,720
Interest on total OPEB liability	3,398	3,518	3,907	3,427
Effect of economic/demographic (gains) or losses	5,522	2,727	2,618	(2,096)
Effect of assumption changes or inputs	5,021	(10,922)	24,928	14,418
Benefit payments/refunds of contributions	<u>(4,009)</u>	<u>(3,660)</u>	<u>(4,449)</u>	<u>(4,357)</u>
Net change in total OPEB liability	\$ 12,007	\$ (6,059)	\$ 28,748	\$ 14,112
Total OPEB liability, beginning	<u>89,808</u>	<u>101,815</u>	<u>95,756</u>	<u>124,504</u>
Total OPEB liability, ending	<u>\$ 101,815</u>	<u>\$ 95,756</u>	<u>\$ 124,504</u>	<u>\$ 138,616</u>
OPEB covered payroll	\$ 2,227,272	\$ 2,153,225	\$ 2,341,376	\$ 2,420,712
Net OPEB liability as a percentage of covered payroll	4.57 %	4.45 %	5.32 %	5.73 %

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF DISTRICT CONTRIBUTIONS –
OTHER POSTEMPLOYMENT BENEFITS
SEPTEMBER 30, 2021**

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	OPEB Covered Payroll ⁽¹⁾	Actual Contribution as a Percentage of Covered Payroll
2017	\$ 8,253	\$ 8,253	\$ - 0 -	\$2,142,613	0.39%
2018	\$ 8,048	\$ 8,048	\$ - 0 -	\$2,101,962	0.38%
2019	\$ 9,124	\$ 9,124	\$ - 0 -	\$2,313,602	0.39%
2020	\$ 8,623	\$ 8,623	\$ - 0 -	\$2,417,077	0.36%
2021	\$ 9,239	\$ 9,239	\$ - 0 -	\$2,456,052	0.38%

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

⁽¹⁾ Payroll is calculated based on contributions as reported to TCDRS.

All actuarial methods and assumptions used for this analysis were the same as those used in the December 31, 2020 funding valuation. Following are the key assumptions and methods used in this analysis.

Valuation Timing	Actuarially determined contribution rates are calculated 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 method over expected working life
Asset Valuation Method	Does not apply
Inflation	Does not apply
Salary Increases	Does not apply
Investment Rate of Return	2.12%; 20-year Bond GO Index published by bondbuyer.com as of December 31, 2020
Cost-of-Living Adjustments	Does not apply
Retirement, Disability, Termination	Same as funding valuation
Mortality	Same as funding valuation, See Note 10

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

SEPTEMBER 30, 2021

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**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>8,260</u>	<u>7,787</u>	x 1.0	<u>7,787</u>
1"	<u>355</u>	<u>336</u>	x 2.5	<u>840</u>
1½"	<u>31</u>	<u>26</u>	x 5.0	<u>130</u>
2"	<u>165</u>	<u>158</u>	x 8.0	<u>1,264</u>
3"	<u>25</u>	<u>25</u>	x 15.0	<u>375</u>
4"	<u>19</u>	<u>19</u>	x 25.0	<u>475</u>
6"	<u>7</u>	<u>7</u>	x 50.0	<u>350</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>8,862</u>	<u>8,358</u>		<u>11,221</u>
Total Wastewater Connections	<u>8,764</u>	<u>8,272</u>	x 1.0	<u>8,272</u>

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

Gallons billed to customers:	596,786,000	Water Accountability Ratio: 75.7 % (Gallons billed and sold/Gallons pumped and purchased)
Gallons purchased:	842,648,000	From: <u>Gulf Coast Water Authority</u>
Gallons for flushing:	40,954,000	

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

Does the District have Operation and Maintenance standby fees? Yes ☐ No ☒

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Galveston County, Texas

Is the District located within a city?

Entirely ☐ Partly ☒ Not at all ☐

Cities in which District is located:

Dickinson, Texas, League City, Texas and Texas City, Texas

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

Entirely ☐ Partly ☒ Not at all ☐

ETJ's in which District is located:

Texas City, Texas, Dickinson, Texas and League City, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>3,664,990</u>
PROFESSIONAL FEES:	
Auditing	\$ 32,000
Legal	<u>71,423</u>
TOTAL PROFESSIONAL FEES	\$ <u>103,423</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ <u>1,433,794</u>
CONTRACTED SERVICES:	
Management and Consulting	\$ 394,669
Janitorial	10,550
Garbage	1,214
Security	11,568
Sludge Hauling	423,429
Billing Statement Services	<u>70,402</u>
TOTAL CONTRACTED SERVICES	\$ <u>911,832</u>
UTILITIES:	
Electricity, Natural Gas, Telephone	\$ <u>350,991</u>
REPAIRS AND MAINTENANCE	\$ <u>1,498,230</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

ADMINISTRATIVE AND OTHER EXPENDITURES:

Board Expenditures	\$ 1,578
Bank Charges	16,698
Consumer Confidence Report	6,686
Credit Card Charges	69,589
Director Fees	13,200
After Hours Dispatch	8,737
Dues	9,284
Education and Training	19,600
Events	3,066
Fuel	42,907
Health Dist.-Pollution Control	12,871
Information Technology	86,019
Insurance	212,567
Laboratory Fees	47,665
Equipment Lease Payments	82,354
Legal Notices	4,591
Office Supplies and Postage	27,655
Regulatory Assessment	53,693
Safety Materials and Supplies	51,176
Uniform/Floor Mat Rental	28,942
Other	<u>23,056</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 821,934</u>
 CAPITAL OUTLAY	 <u>\$ 2,619,958</u>
TOTAL EXPENDITURES	<u><u>\$ 11,405,152</u></u>

Number of persons employed by the District: 46 Full-Time 0 Part-Time

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
INVESTMENTS
SEPTEMBER 30, 2021**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 5,750,434	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 79,800	\$ - 0 -
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0004	Varies	Daily	\$ 852,121	\$ - 0 -
TOTAL - ALL FUNDS				\$ 6,682,355	\$ - 0 -

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
OCTOBER 1, 2020	\$	78,945	\$	93,507
Adjustments to Beginning				
Balance		<u>(2,487)</u>		<u>(5,536)</u>
	\$	76,458	\$	87,971
Original 2020 Tax Levy	\$	1,202,940	\$	260,940
Adjustment to 2020 Tax Levy		<u>76,476</u>		<u>16,589</u>
		<u>1,279,416</u>		<u>277,529</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,355,874		\$ 365,500
TAX COLLECTIONS:				
Prior Years	\$	24,292	\$	14,577
Current Year		<u>1,253,278</u>		<u>271,859</u>
		<u>1,277,570</u>		<u>286,436</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2021		<u>\$ 78,304</u>		<u>\$ 79,064</u>
TAXES RECEIVABLE BY				
YEAR:				
2020	\$	26,138	\$	5,670
2019		14,447		3,620
2018		9,186		2,573
2017		6,417		1,715
2016		4,756		3,249
2015 and prior		<u>17,360</u>		<u>62,237</u>
TOTAL	\$	78,304	\$	79,064
Allowance for Uncollectible Accounts		<u>(6,241)</u>		<u>(30,110)</u>
	\$	<u>72,063</u>	\$	<u>48,954</u>

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
PROPERTY VALUATIONS:				
Land	\$ 282,262,748	\$ 256,998,640	\$ 247,043,746	\$ 241,284,154
Improvements	1,252,978,075	1,072,512,863	879,581,788	1,063,497,062
Personal Property	110,650,080	105,963,700	103,287,362	103,650,155
Exemptions	<u>(286,698,244)</u>	<u>(252,739,305)</u>	<u>(170,109,780)</u>	<u>(258,247,579)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 1,359,192,659</u>	<u>\$ 1,182,735,898</u>	<u>\$ 1,059,803,116</u>	<u>\$ 1,150,183,792</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.020776	\$ 0.024340	\$ 0.028011	\$ 0.026285
Maintenance	<u>0.095778</u>	<u>0.097139</u>	<u>0.100000</u>	<u>0.098323</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.116554</u>	<u>\$ 0.121479</u>	<u>\$ 0.128011</u>	<u>\$ 0.124608</u>
ADJUSTED TAX LEVY*	<u>\$ 1,556,945</u>	<u>\$ 1,438,458</u>	<u>\$ 1,358,547</u>	<u>\$ 1,433,221</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.96 %</u>	<u>98.74 %</u>	<u>99.13 %</u>	<u>99.43 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.05 per \$100 of assessed valuation approved by voters on November 2, 1993. On May 9, 2015, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District.

See accompanying independent auditor's report.

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2021**

S E R I E S - 2 0 1 6				
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1 September 1	Total	
2022	\$ 205,000	\$ 60,475	\$	265,475
2023	205,000	52,275		257,275
2024	205,000	44,075		249,075
2025	205,000	35,875		240,875
2026	205,000	29,212		234,212
2027	205,000	24,088		229,088
2028	205,000	18,962		223,962
2029	205,000	13,838		218,838
2030	205,000	8,456		213,456
2031	205,000	2,819		207,819
2032				
2033				
2034				
	<u>\$ 2,050,000</u>	<u>\$ 290,075</u>	<u>\$</u>	<u>2,340,075</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2021**

S E R I E S - 2 0 2 0 R E F U N D I N G			
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2022	\$	\$ 206,800	\$ 206,800
2023	320,000	198,800	518,800
2024	335,000	182,425	517,425
2025	350,000	165,300	515,300
2026	375,000	147,175	522,175
2027	390,000	128,050	518,050
2028	415,000	107,925	522,925
2029	430,000	86,800	516,800
2030	450,000	64,800	514,800
2031	475,000	44,050	519,050
2032	485,000	27,275	512,275
2033	495,000	15,050	510,050
2034	505,000	5,050	510,050
	<u>\$ 5,025,000</u>	<u>\$ 1,379,500</u>	<u>\$ 6,404,500</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2021**

ANNUAL REQUIREMENTS FOR ALL SERIES			
Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2022	\$ 205,000	\$ 267,275	\$ 472,275
2023	525,000	251,075	776,075
2024	540,000	226,500	766,500
2025	555,000	201,175	756,175
2026	580,000	176,387	756,387
2027	595,000	152,138	747,138
2028	620,000	126,887	746,887
2029	635,000	100,638	735,638
2030	655,000	73,256	728,256
2031	680,000	46,869	726,869
2032	485,000	27,275	512,275
2033	495,000	15,050	510,050
2034	505,000	5,050	510,050
	\$ 7,075,000	\$ 1,669,575	\$ 8,744,575

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Description	Original Bonds Issued	Bonds Outstanding October 1, 2020
Galveston County Water Control and Improvement District No. 1 Unlimited Tax Bonds - Series 2016 (1)	\$ 3,490,000	\$ 2,260,000
Galveston County Water Control and Improvement District No. 1 Revenue Refunding Notes - Series 2020 (2)	<u>5,025,000</u>	<u>5,025,000</u>
TOTAL	<u>\$ 8,515,000</u>	<u>\$ 7,285,000</u>

Bond Authority:	Original Tax Bonds*
Amount Authorized by Voters	\$ 33,985,500
Amount Issued	<u>28,275,500</u>
Remaining to be Issued	<u>\$ 5,710,000</u>

Debt Service Fund cash and investment balances as of September 30, 2021: \$ 278,622

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 672,660

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

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

(1) The District is reported to have issued approximately fourteen (14) installments of tax bonds in the amount of \$24,785,500 prior to 2016. The Series 2003 Unlimited Tax Refunding Bonds refunded \$3,790,000 of Series 1993 Unlimited Tax Refunding Bonds and \$8,225,000 of Series 1994 Unlimited Tax Bonds. All tax bonds prior to 2016 are paid in full.

(2) The District has issued the following revenue notes: \$6,395,000 Series 2002-A, \$1,040,000 Series 2002-B, and \$6,500,000 Series 2010. The Series 2012 Revenue Refunding Notes refinanced the Series 2002 Notes. The Series 2020 Revenue Refunding Notes refinanced the Series 2010 Notes.

See accompanying independent auditor's report

Current Year Transactions					
Bonds Sold	Retirements		Bonds Outstanding September 30, 2021	Paying Agent	
	Principal	Interest			
\$	\$ 210,000	\$ 68,775	\$ 2,050,000	BOKF, N.A. Austin, TX	
		213,693	5,025,000	BOKF, N.A. Dallas, TX	
<u>\$ - 0 -</u>	<u>\$ 210,000</u>	<u>\$ 282,468</u>	<u>\$ 7,075,000</u>		

Reconciliation of Original Tax Bonds Issued:

<u>Series</u>	<u>Amount</u>
2016	\$ 3,490,000
1994	9,000,000
1986	8,000,000
1982	3,205,000
1972	1,500,000
1967	398,500
1962	800,000
1961	700,000
1959	88,000
1958	110,000
1956	400,000
1953	59,000
1950	25,000
1950	500,000
	<u>\$ 28,275,500</u>

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	Amounts		
	2021	2020	2019
REVENUES			
Property Taxes	\$ 1,277,555	\$ 1,144,333	\$ 1,053,282
Water Service	3,939,854	4,076,439	3,484,669
Wastewater Service	3,583,044	3,608,318	3,196,172
Texas City Maintenance Fees	23,439	33,507	27,461
Out of District Surcharge	38,071	41,944	35,233
Grant Revenues	40,933	127,592	
Solid Waste Revenues-District Portion	298,121	145,254	
Penalty and Interest	172,663	74,799	133,941
Tap Connection and Inspection Fees	370,490	229,123	294,967
Investment Revenues	12,924	48,646	113,608
Miscellaneous Revenues	145,572	84,264	525,846
TOTAL REVENUES	<u>\$ 9,902,666</u>	<u>\$ 9,614,219</u>	<u>\$ 8,865,179</u>
EXPENDITURES			
Payroll	\$ 3,664,990	\$ 3,529,313	\$ 3,375,234
Purchased Bulk Water	1,433,794	1,383,221	1,393,382
Professional Fees	103,423	89,652	62,523
Contracted Services	911,832	338,822	276,519
Repairs and Maintenance	1,498,230	996,632	911,575
Utilities	350,991	321,151	334,704
Administrative Expenses	821,934	704,015	662,785
Capital Outlay	2,619,958	575,753	682,214
TOTAL EXPENDITURES	<u>\$ 11,405,152</u>	<u>\$ 7,938,559</u>	<u>\$ 7,698,936</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,502,486)</u>	<u>\$ 1,675,660</u>	<u>\$ 1,166,243</u>
OTHER FINANCING SOURCES (USES)			
Transfers (Out)	<u>\$ (391,510)</u>	<u>\$ (339,502)</u>	<u>\$ (590,951)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,893,996)</u>	<u>\$ 1,336,158</u>	<u>\$ 575,292</u>
BEGINNING FUND BALANCE	<u>7,500,103</u>	<u>6,163,945</u>	<u>5,588,653</u>
ENDING FUND BALANCE	<u>\$ 5,606,107</u>	<u>\$ 7,500,103</u>	<u>\$ 6,163,945</u>

See accompanying independent auditor's report

		Percentage of Total Revenues				
2018	2017	2021	2020	2019	2018	2017
\$ 1,123,963	\$ 1,030,345	13.0 %	12.0 %	11.9 %	12.6 %	11.8 %
3,368,313	3,710,858	39.8	42.4	39.3	37.5	42.7
3,124,534	3,399,957	36.2	37.5	36.1	34.8	39.1
29,675	28,651	0.2	0.3	0.3	0.3	0.3
34,407	32,720	0.4	0.4	0.4	0.4	0.4
754,783	33,648	0.4	1.3		8.4	0.4
		3.0	1.5			
107,519	121,175	1.7	0.8	1.5	1.2	1.4
223,290	171,753	3.7	2.4	3.3	2.5	2.0
71,949	32,474	0.1	0.5	1.3	0.8	0.4
133,928	130,247	1.5	0.9	5.9	1.5	1.5
<u>\$ 8,972,361</u>	<u>\$ 8,691,828</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 3,124,710	\$ 3,124,947	37.0 %	36.7 %	38.1 %	34.8 %	36.0 %
1,300,325	1,183,072	14.5	14.4	15.7	14.5	13.6
76,642	58,239	1.0	0.9	0.7	0.9	0.7
256,625	201,425	9.2	3.5	3.1	2.9	2.3
516,799	861,661	15.1	10.4	10.3	5.8	9.9
289,208	381,445	3.5	3.3	3.8	3.2	4.4
647,559	707,295	8.3	7.3	7.5	7.2	8.1
1,812,261	802,872	26.5	6.0	7.7	20.2	9.2
<u>\$ 8,024,129</u>	<u>\$ 7,320,956</u>	<u>115.1 %</u>	<u>82.5 %</u>	<u>86.9 %</u>	<u>89.5 %</u>	<u>84.2 %</u>
<u>\$ 948,232</u>	<u>\$ 1,370,872</u>	<u>(15.1) %</u>	<u>17.5 %</u>	<u>13.1 %</u>	<u>10.5 %</u>	<u>15.8 %</u>
<u>\$ (922,238)</u>	<u>\$ (919,196)</u>					
\$ 25,994	\$ 451,676					
<u>5,562,659</u>	<u>5,110,983</u>					
\$ 5,588,653	\$ 5,562,659					

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 1
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2021	2020	2019
REVENUES			
Property Taxes	\$ 286,450	\$ 292,957	\$ 301,211
Penalty and Interest	26,061	16,238	14,635
Miscellaneous Revenues	44	5,653	23,007
TOTAL REVENUES	<u>\$ 312,555</u>	<u>\$ 314,848</u>	<u>\$ 338,853</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 25,073	\$ 22,772	\$ 19,955
Debt Service Principal	210,000	795,000	790,000
Debt Service Interest and Fees	282,974	245,473	426,955
Bond Issuance Costs		260,570	
Payment to Refunded Bond Escrow Agent		955,130	
TOTAL EXPENDITURES	<u>\$ 518,047</u>	<u>\$ 2,278,945</u>	<u>\$ 1,236,910</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (205,492)</u>	<u>\$ (1,964,097)</u>	<u>\$ (898,057)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ 391,510	\$ 339,502	\$ (159,557)
Long-Term Debt Issued		5,025,000	
Payment to Refunded Bond Escrow Agent		(5,755,114)	
Bond Premium		995,987	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 391,510</u>	<u>\$ 605,375</u>	<u>\$ (159,557)</u>
NET CHANGE IN FUND BALANCE	\$ 186,018	\$ (1,358,722)	\$ (1,057,614)
BEGINNING FUND BALANCE	<u>92,604</u>	<u>1,451,326</u>	<u>2,508,940</u>
ENDING FUND BALANCE	<u>\$ 278,622</u>	<u>\$ 92,604</u>	<u>\$ 1,451,326</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>8,358</u>	<u>8,232</u>	<u>8,078</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>8,272</u>	<u>8,093</u>	<u>7,964</u>

See accompanying independent auditor's report

		Percentage of Total Revenues				
2018	2017	2021	2020	2019	2018	2017
\$ 323,895	\$ 720,002	91.7 %	93.0 %	88.9 %	85.4 %	94.9 %
27,001	25,475	8.3	5.2	4.3	7.1	3.4
28,294	12,869		1.8	6.8	7.5	1.7
<u>\$ 379,190</u>	<u>\$ 758,346</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 29,254	\$ 30,300	8.0 %	7.2 %	5.9 %	7.7 %	4.0 %
780,000	1,155,000	67.2	252.5	233.1	205.7	152.3
447,663	475,819	90.5	78.0	126.0	118.1	62.7
			82.8			
			303.4			
<u>\$ 1,256,917</u>	<u>\$ 1,661,119</u>	<u>165.7 %</u>	<u>723.9 %</u>	<u>365.0 %</u>	<u>331.5 %</u>	<u>219.0 %</u>
<u>\$ (877,727)</u>	<u>\$ (902,773)</u>	<u>(65.7) %</u>	<u>(623.9) %</u>	<u>(265.0) %</u>	<u>(231.5) %</u>	<u>(119.0) %</u>
\$ 922,238	\$ 919,196					
<u>\$ 922,238</u>	<u>\$ 919,196</u>					
\$ 44,511	\$ 16,423					
<u>2,464,429</u>	<u>2,448,006</u>					
<u>\$ 2,508,940</u>	<u>\$ 2,464,429</u>					
<u>7,951</u>	<u>7,830</u>					
7,768	7,643					

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2021**

District Mailing Address - Galveston County Water Control and
Improvement District No. 1
P. O. Box 307
Dickinson, TX 77539

District Telephone Number - (281) 337-1576

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2021	Expenditures for Travel and Training for the year ended September 30, 2021	Title
John Mitchiner	11/20 05/24 (Elected)	\$ 3,000	\$ 2,492	President
Shamarion Barber	11/20 05/24 (Elected)	\$ 2,100	\$ 755	Vice President
William Gaffey	05/18 05/22 (Elected)	\$ 2,700	\$ 2,045	Secretary/ Treasurer
Jeffrey Spriggins	11/20 05/24 (Elected)	\$ 3,300	\$ 2,626	Director
Garland Copelin	05/18 05/22 (Elected)	\$ 2,100	\$ 380	Director

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

Submission date of most recent District Registration Form: September 27, 2021

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 21, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report

**GALVESTON COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2021**

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2021</u>	<u>Title</u>
Aurora Amaro, CPA	05/16/08	\$ 115,698	Chief Financial Officer/ Investment Officer
Nancy Click	08/28/98	\$ 103,391	Administrative Assistant to General Manager
Keith Morgan	07/30/04	\$ 108,629	Superintendent of Water and Wastewater
Consultants:			
Ivan Langford Consulting	09/01/20	\$ 139,308	General Manager
Baker Williams Matthiesen LLP	10/31/18	\$ 24,288	Former General Counsel
Olson & Olson LLP	05/18/2021	\$ 32,888	General Counsel
McCall Gibson Swedlund Barfoot PLLC	09/17/12	\$ 32,000	Auditor
Linebarger Goggan Blair & Sampson LLP	08/01/03	\$ 10,984	Delinquent Tax Attorney
HDR Engineering, Inc.	08/01/06	\$ 1,061,578	Engineer
U.S. Capital Advisors	06/13	\$ -0-	Financial Advisor
Galveston County Tax Assessor	08/01/03	\$ 2,395	Tax Assessor Collector

See accompanying independent auditor's report

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APPENDIX D

FORM OF BOND COUNSEL

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March 22, 2022

WE HAVE ACTED as Bond Counsel for the Galveston County Water Control and Improvement District No. 1 (the "District") in connection with an issue of bonds (the "Bonds") described as follows:

GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1 UNLIMITED TAX BONDS dated March 1, 2022, in the aggregate principal amount of \$5,710,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the resolution (the "Resolution") adopted by the Board of Directors of the District authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Resolution. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. IB-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws

of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, (1) interest on the Bonds is not included in gross income of the owners thereof for federal income tax purposes under existing law, (2) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum income tax, and (3) the Bonds are not “private activity bonds” as defined in Section 103(b)(1) of the Internal Revenue Code of 1986, as amended (the “Code”). The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Resolution, with respect to the Bonds, to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters.

IN PROVIDING THE FOREGOING OPINIONS, we have relied upon representations of the District with respect to matters solely within the knowledge of the District, which we have not independently verified, and have assumed the accuracy and completeness thereof.

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance and property and casualty insurance

March 22, 2022

Page 3

companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

Very truly yours,

A handwritten signature in blue ink, appearing to read "H. J. ...", is written over the closing "Very truly yours,".

16723/24523

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APPENDIX E

SPECIMEN MUTUAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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USCA MUNICIPAL ADVISORS, LLC

Financial Advisor to the District

