

OFFICIAL STATEMENT DATED JUNE 9, 2022

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

The Bonds have been designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”

***Moody’s (Underlying) Rating.... (“Baa3”)
Moody’s (Insured) Rating.... (“A1”)
S&P (Insured) Rating.... (“AA”)***

NEW ISSUE – Book-Entry-Only

See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

\$1,120,000

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 32

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

UNLIMITED TAX BONDS, SERIES 2022

Dated: Date of Delivery (defined below)

Due: September 1, as shown below

The Galveston County Municipal Utility District No. 32 Unlimited Tax Bonds, Series 2022 described above (the “Bonds”) are dated July 7, 2022 and will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple of \$5,000. Principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, (the “Paying Agent/Registrar”). See “THE BONDS – PAYING AGENT/REGISTRAR.” Interest accrues from the Date of Delivery, and is payable on March 1, 2023 and each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds will be payable by check or draft, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the bond register kept by the Paying Agent/Registrar (the “Registered Owners”) on the 15th day of the month prior to each Interest Payment Date (the “Record Date”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE” and “APPENDIX B – Specimen Municipal Bond Insurance Policy.”

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (September 1)	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Nos. 36422X ^(c)	Due (September 1)	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Nos. 36422X ^(c)
2023	\$15,000	6.750%	2.000%	JB8	2027	\$25,000	6.750%	2.600%	JF9
2024	25,000	6.750%	2.150%	JC6	2028	20,000	6.750%	2.800%	JG7
2025	25,000	6.750%	2.300%	JD4					
2026	25,000	6.750%	2.450%	JE2	2047 ^(d)	850,000	4.000%	4.072%	KB6

\$135,000 Term Bond due September 1, 2036 ^{(d) (e)} Interest Rate 3.750% Initial Yield 3.750% ^(b) CUSIP No. 36422XJQ5 ^(c)

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest net effective interest rate bid to purchase the Bonds, bearing interest as shown, at a price of 97.005536% of par, resulting in a net effective interest rate to the District of 4.189630%.
- (b) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Underwriter (herein defined), and may subsequently be changed. Initial yields on premium Bonds are calculated to the earlier of maturity or the first optional call date.
- (c) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association, Inc., and are solely for the convenience of the owners of the Bonds.
- (d) Bonds maturing on September 1, 2029, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, integral multiples of \$5,000, on September 1, 2028, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption Provisions.”
- (e) In addition to being subject to optional redemption, as described above, the Term Bonds (as hereinafter defined) are also subject to mandatory redemption by lot or other customary random selection method on September 1 in the years and in the amounts set forth herein under the caption “THE BONDS – Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See “RISK FACTORS” herein.

The Bonds are offered subject to prior sale when, as and if issued by the District and accepted by the Underwriter (herein defined), subject to approval of legality by the Attorney General of the State of Texas and the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed on for the District by Bracewell LLP, Houston, Texas, Disclosure Counsel. The Bonds are expected to be available for delivery on or about July 7, 2022 (the “Date of Delivery”).

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, contracts, audits, and 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, upon payment of duplication costs.

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

References to website 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 any purposes.

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

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. Particularly, the reader should refer to indicated sections for more complete information on the discussed topic.

The District..... Galveston County Municipal Utility District No. 32 (the “District”), a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (“TCEQ”), dated July 22, 2005, is located in northwestern Galveston County, Texas within the city limits of the City of La Marque, Texas (the “City”), which is approximately 35 miles southeast of the Houston Central Business District. The District is located north of F.M. 1765, southwest of Interstate Highway 45, east of F.M. 2004, and west of Delany Road. The District lies entirely within the corporate limits of the City. Waterworks and sewage treatment facilities (certain drainage facilities excepted) are conveyed to the City for ownership, operation and maintenance. At the time of its creation, the District contained 169.1 acres and since that time has annexed 98.2 acres in 2007, for a total of 267.3 acres. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended and other applicable laws of the State of Texas applicable to municipal utility districts. See “THE DISTRICT.”

The Bonds..... \$1,120,000 Galveston County Municipal Utility District No. 32 Unlimited Tax Bonds, Series 2022 (the “Bonds”) are issued pursuant to a resolution of the District’s Board of Directors (the “Resolution”). The Bonds are issued as serial bonds (the “Serial Bonds”) maturing annually on September 1, 2023 through 2028 inclusive, and in 2047, and as term bonds (the “Term Bonds”) maturing on September 1, 2036. The Serial Bonds and the Term Bonds are collectively referred to herein as the “Bonds”. Interest on the Bonds is payable on each March 1 and September 1 beginning March 1, 2023. Bonds maturing on and after September 1, 2029 are subject to redemption and payment at the option of the District, in whole or from time to time in part, prior to their scheduled maturities on September 1, 2028, and on any date thereafter. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount. See “THE BONDS.”

Infectious Disease

Outbreak (COVID-19).. In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State of Texas. The Governor retains the right to impose restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property within the District. See “THE BONDS – Source of Payment.” The Bonds are obligations of the District, and are not obligations of the State of Texas, Galveston County, the City, or any entity other than the District.
Municipal Bond Rating and Insurance.....	<p>S&P Global Ratings a division of Standard & Poor's Financial Services LLC (“S&P”) has assigned its municipal bond rating of “AA” and Moody’s Investors Service, Inc. (“Moody’s”) has assigned its municipal bond rating of “A1” to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp.</p> <p>Additionally, Moody’s has assigned the Bonds an underlying rating of “Baa3.” An explanation of the significance of such ratings may be obtained from S&P and Moody’s. These ratings reflect only the views of S&P and Moody’s, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if in the sole judgment of S&P and/or Moody’s circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds. See “MUNICIPAL BOND RATING”, “MUNICIPAL BOND INSURANCE” and “MUNICIPAL BOND INSURANCE RISK FACTORS.”</p>
Use of Proceeds	Proceeds of the sale of the Bonds will be used for expenses associated with: (i) remaining costs for Landing at Delany Cove Section 11 water, wastewater and drainage; (ii) drainage culvert and water line relocation for Landing at Delany Cove Section 8; (iii) water, wastewater, and drainage facilities serving the Landing at Delany Cove Sections 12 and 13; (iv) retiring the BAN in the amount of \$786,000; and (v) certain financing, legal and other costs related to the issuance of the Bonds. See “SOURCES AND USES OF FUNDS.”
Status of Development..	As of May 12, 2022, the District contained 705 completed single-family homes, 47 homes under construction and 54 lots available for home construction. The remaining land in the District is comprised of approximately 6.50 undeveloped but developable acres and approximately 47 acres that are undevelopable. See “THE DISTRICT – Status of Development.”
Developer	Land within the District is being developed by Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership, doing business as Friendswood Development Company. See “THE DISTRICT” and “THE DEVELOPER.”
Homebuilders within the District	Recently completed homes within the District have been constructed by Lennar Homes. New homes being constructed range in price from the \$240,000’s to the \$335,000’s. See “THE DISTRICT – Status of Development” and “THE DISTRICT – Homebuilders.”
Book-Entry-Only	The Bonds are initially issuable in book-entry-only form and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, which will act as securities depository. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. See “THE BONDS – Book-Entry-Only System.”

Outstanding Bonds The District has previously issued eight series of bonds: \$2,360,000 Unlimited Tax Bonds, Series 2010, \$975,000 Unlimited Tax Bonds, Series 2016, \$2,000,000 Unlimited Tax Bonds, Series 2017, \$2,060,000 Unlimited Tax Bonds, Series 2018, \$2,390,000 Unlimited Tax Bonds, Series 2019, \$2,320,000 Unlimited Tax Bonds, Series 2020, \$3,050,000 Unlimited Tax Bonds, Series 2021, and \$1,690,000 Unlimited Tax Refunding Bonds, Series 2022. As of the date of this Official Statement, \$14,200,000 in principal amount remains outstanding (the “Outstanding Bonds”).

Authorized but

Unissued Bonds The voters of the District authorized the issuance of \$36,950,000 in principal amount in bonds for water, sewer and drainage purposes. After the issuance of the Bonds, \$20,675,000 in principal amount of bonds will remain authorized but unissued. The voters of the District have also authorized the issuance of \$1,730,000 in principal amount in recreational facility bonds and \$24,000,000 in principal amount in refunding bonds, of which \$23,925,000 in principal amount remains authorized but unissued. The voters of the District may, in the future, authorize the issuance of additional bonds. See “THE BONDS – Issuance of Additional Debt.”

Qualified Tax-Exempt

Obligations The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”

Payment Record.....

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

Authority for

Issuance The Bonds are issued pursuant to the terms and provisions of the Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held in the District, and an order of the TCEQ.

Legal Opinion.....

Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel.

Engineer.....

IDS Engineering Group, Houston, Texas.

Disclosure Counsel

Bracewell LLP, Houston, Texas.

Financial Advisor

RBC Capital Markets, LLC, Houston, Texas.

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

SUMMARY OF SELECTED FINANCIAL INFORMATION

(Unaudited as of May 12, 2022)

2021 Certified Assessed Valuation	\$144,696,389	(a)
Estimate of Assessed Valuation (as of January 1, 2022)	\$167,915,796	(b)

Direct Debt Outstanding (including the Bonds)	\$15,320,000	
Ratio of Direct Debt to:		
2021 Certified Assessed Valuation*	10.59%	
Estimate of Assessed Valuation (as of January 1, 2022)*	9.12%	
Debt Service Fund Balance (as of April 25, 2022)	\$1,133,110	(c)

2021 Adopted Tax Rate		
Maintenance & Operations	\$0.11	
Debt Service	0.64	
Total	<u>\$0.75</u>	

Average Annual Debt Service Requirements (2022 – 2047) including the Bonds (“Average Annual Requirement”).....	\$875,542
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Tax rate required to pay Average Annual Requirement based upon 2021 Certified Assessed Valuation at 95% collections	\$0.64
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Tax rate required to pay Average Annual Requirement based upon Estimate of Assessed Valuation (as of January 1, 2022) at 95% collections	\$0.55
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Maximum Annual Debt Service Requirements including the Bonds (2046) including the Bonds (“Maximum Annual Requirement”).....	\$903,125
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Tax rate required to pay Maximum Annual Requirement based upon 2021 Certified Assessed Valuation at 95% collections	\$0.66
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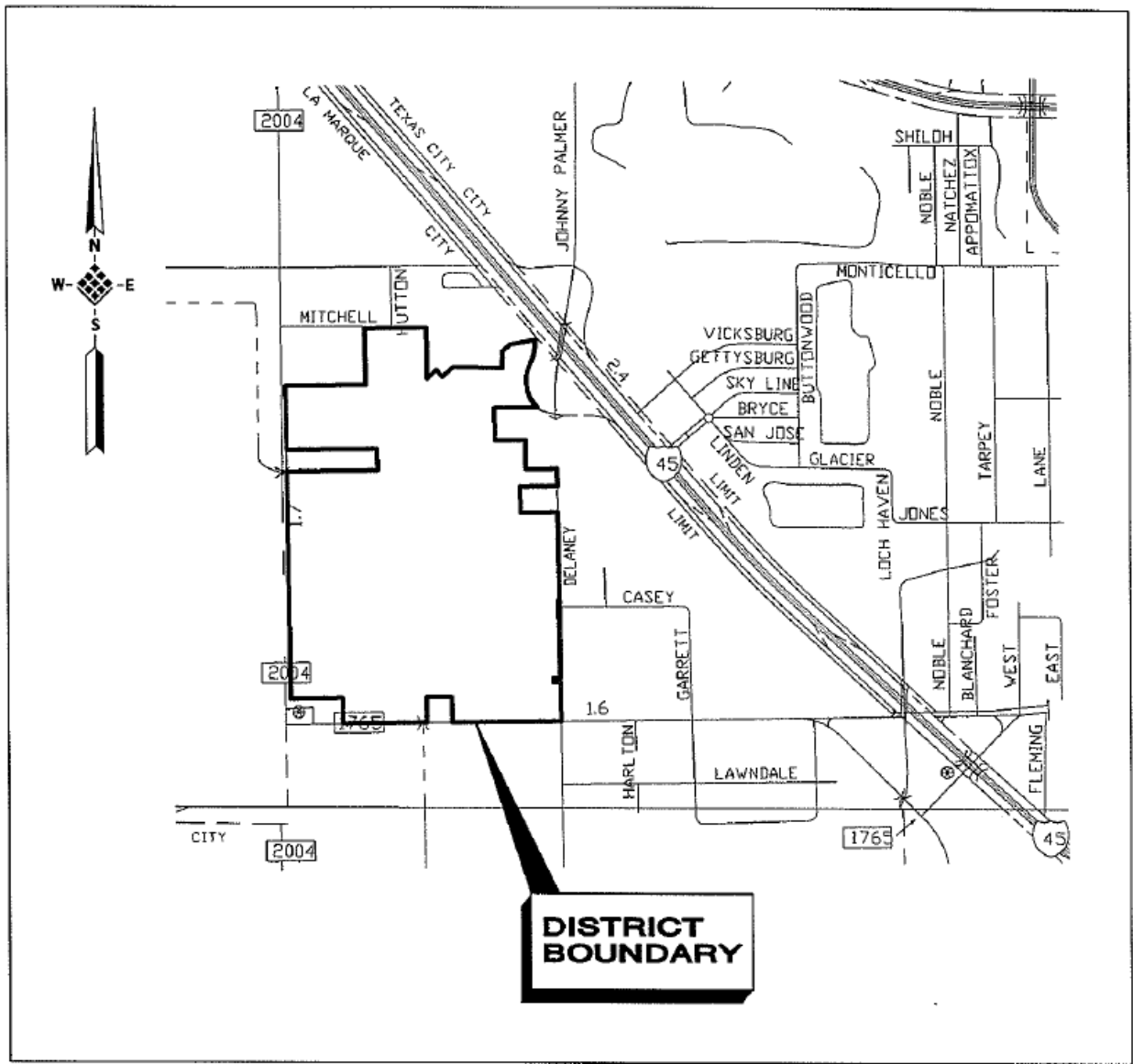
Tax rate required to pay Maximum Annual Requirement based upon Estimate of Assessed Valuation (as of January 1, 2022) at 95% collections	\$0.57
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Status of Development as of May 12, 2022:		
Completed Homes	705	
Homes Under Construction	47	
Vacant Lots	54	
Total	<u>806</u>	

Estimated District Population	2,467	(d)
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- (a) As certified by the Galveston Central Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Galveston County Appraisal District as of January 1, 2022. This amount is an estimate of taxable values of all taxable property located within the District. This estimate is prior to any protests, and the ultimate assessed valuation of any improvements added to the District’s tax roll may vary from such estimate.
- (c) In addition to this amount, twelve (12) months of capitalized interest will be deposited into the District’s debt service fund upon closing and delivery of the Bonds. Neither Texas law nor the Resolution requires that the District maintain any particular sum in the District’s debt service fund.
- (d) Based upon 3.5 residents per occupied single family residential connection.

LOCATION MAP



OFFICIAL STATEMENT
relating to

\$1,120,000

GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 32
(A political subdivision of the State of Texas located within Galveston County, Texas)

Unlimited Tax Bonds
Series 2022

INTRODUCTION

The Official Statement provides certain information in connection with the issuance by the Galveston County Municipal Utility District No. 32 (the “District”) of its Unlimited Tax Bonds, Series 2022 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code as amended, an order of the Texas Commission on Environmental Quality (the “TCEQ”), an election held within the District, and pursuant to a resolution (the “Resolution”) adopted by the Board of Directors of the District, a political subdivision of the State of Texas located within the city limits of the City of La Marque, Texas (the “City”) in Galveston County, Texas.

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

THE BONDS

General

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

The Bonds will be dated and accrue interest from July 7, 2022, and will mature on the dates and in the amounts and bear interest at the rates shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. Interest on the Bonds is payable on each March 1 and September 1 beginning March 1, 2023 (each an “Interest Payment Date”). The Bonds will be issued in fully registered form only, in principal denominations of \$5,000 or any integral multiple of \$5,000.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial paying agent/registrar (the “Paying Agent/Registrar”). Provision is made in the Resolution for replacement of the Paying Agent/Registrar. See “Successor Paying Agent/Registrar” below.

Successor Paying Agent/Registrar

Provision is made in the Resolution for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar’s records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor 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 registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no 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 Resolution will be given only to DTC.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owners of the Bonds (the "Registered Owner(s)"). The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business

on a Record Date (hereinafter defined) and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

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

Source of Payment

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

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

Authority for Issuance

The Bonds are issued pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54, Texas Water Code, as amended, an order of the TCEQ, an election held within the District, and pursuant to the Resolution. The project to be financed with the proceeds of the Bonds, and the issuance of the Bonds for such purpose, was approved by order of the TCEQ dated April 12, 2022. Before the Bonds can be issued the Attorney General of Texas must pass upon the legality of the Bonds. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

At a bond election held within the District on November 8, 2005, the voters authorized issuance of \$36,950,000 in principal amount of unlimited tax bonds for water, sewer and drainage purposes. The Bonds constitute the eighth issuance of bonds from such authorization, not including refunding bonds. The District has previously issued eight series of bonds: \$2,360,000 Unlimited Tax Bonds, Series 2010, \$975,000 Unlimited Tax Bonds, Series 2016, \$2,000,000 Unlimited Tax Bonds, Series 2017, \$2,060,000 Unlimited Tax Bonds, Series 2018, \$2,390,000 Unlimited Tax Bonds, Series 2019, \$2,320,000 Unlimited Tax Bonds, Series 2020, \$3,050,000 Unlimited Tax Bonds, Series 2021, and \$1,690,000 Unlimited Tax Refunding Bonds, Series 2022. As of the date of this Official Statement, \$14,200,000 in principal amount remains outstanding (the "Outstanding Bonds"). After sale of the Bonds, a total of \$20,675,000 in principal amount of water, sewer and drainage unlimited tax bonds will remain authorized but unissued. See "Issuance of Additional Debt" below.

Short-Term Debt

In connection with the Bonds, the District has issued its \$786,000 Bond Anticipation Note, Series 2021, dated November 18, 2021 (the "BAN"). The District will use Bond proceeds to redeem the BAN prior to maturity. See "SOURCES AND USES OF FUNDS."

Record Date

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

Funds

In the Resolution, the District will confirm the debt service fund (the “Debt Service Fund”). The proceeds from all taxes levied, assessed and collected for and on account of the Bonds shall be deposited, as collected, in the District’s Debt Service Fund and used only for the purpose of paying principal of and interest on the Bonds.

The remaining proceeds from the sale of the Bonds, including interest earnings thereon, shall be deposited into the Capital Projects Fund and used to reimburse the costs of acquiring or constructing District facilities or capacity in facilities serving the District, pay interest on such reimbursements, redeem the BAN, and pay the costs of issuing the Bonds and the BAN.

Method of Payment of Principal and Interest

In the Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., as Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of the payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable at the principal payment office of the Paying Agent/Registrar in Dallas, Texas. Interest on each Bond shall be payable by check or draft payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owners as shown on the Register on the fifteenth (15) day (whether or not a business day) of the month prior to each interest payment date (defined herein as the “Record Date”), to the address of such Registered Owner as shown on the Register or by such other customary banking agreement as may be agreed to by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

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

No Arbitrage

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

Redemption Provisions

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

Mandatory Redemption: The Term Bond due on September 1 in the year 2036 is also subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

<u>Term Bond 2036 – \$135,000</u>	
<u>Year of Redemption</u>	<u>Principal Amount</u>
2029	\$25,000
2030	20,000
2031	20,000
2032	20,000
2033	15,000
2034	15,000
2035	10,000
2036 (maturity)	10,000

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

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Replacement of Bonds

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

Issuance of Additional Debt

The voters of the District authorized the issuance of \$36,950,000 in principal amount of bonds for water, sewer and drainage purposes. The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT – General.” The District will have \$20,675,000 in principal amount of water, sewer and drainage unlimited tax bonds authorized but unissued after the issuance of the Bonds. The District is also authorized to issue \$1,730,000 in unlimited tax bonds for park and recreational purposes and \$24,000,000 in unlimited tax bonds for refunding purposes, of which, \$23,925,000 in principal amount remains authorized but unissued. The Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District. See “RISK FACTORS – Future Debt.”

Before issuing any additional bonds for water, sewer, and drainage facilities, the District would have to obtain approval of the TCEQ for the issuance of such bonds and the projects to be financed thereby. In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes, and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter

into contracts and to pledge its taxing power to secure any payments the District is required to make under such contracts, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds without additional voter approval but any such refunding bonds would require prior written approval from the City.

According to the Developer (hereinafter defined), following the issuance of the Bonds, and with respect to funds advanced by the Developer to date, the District will owe the Developer approximately \$2,000,000 as of April 26, 2022, excluding Developer interest, for funds heretofore advanced on behalf of the District. The District has entered into agreements with the Developer to reimburse such amounts from the proceeds of future bond issues, subject to TCEQ approval of each such bond issue.

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

Consolidation

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

Dissolution

Under existing Texas law, since the District lies wholly within the corporate limits of the City, the District may be dissolved by the City without the consent of the District or its voters. If the District is dissolved, the City must assume the District's assets and obligations (including the Bonds).

Dissolution of a district is a policy-making matter within the discretion of the Mayor and City Council of the City and therefore, the District makes no representation that the City will ever dissolve the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should dissolution occur.

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

Defeasance

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

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

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

RISK FACTORS

General

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

Factors Affecting Taxable Values and Tax Payments

Infectious Disease Outbreak (COVID-19): In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State of Texas. The Governor retains the right to impose restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

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

Economic Factors and Interest Rates: The rate of development of the District is primarily related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices, consumer demand and the rate of foreclosures. Decreased levels of home construction activity tend to restrict the growth of property values in the District. High foreclosure rates may also affect mortgage lenders’ willingness to accept risk and affect potential borrowers’ ability to qualify for loans.

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

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

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2021 certified assessed valuation of the District is \$144,696,389, and the estimate of value as of January 1, 2022 is \$167,915,796 (see “SELECTED FINANCIAL INFORMATION”). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$903,125 (2046), and the Average Annual Debt Service Requirement, on a calendar year basis, will be \$875,542 (2022 through 2047, inclusive). Assuming no increase or decrease from the 2021 certified assessed valuation and no use of funds on hand, a debt service tax rate of \$0.66 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.64 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. Assuming no increase or decrease from the Estimate of Value as of January 1, 2022 and no use of funds on hand, a debt service tax rate of \$0.57 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.55 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See “DEBT SERVICE SCHEDULE” and “SELECTED FINANCIAL INFORMATION – Tax Adequacy for Debt Service.” The Estimate of Value is prior to any protests and the assessed valuation may vary significantly from the estimate when certified. Property within the District also is subject to taxes levied by other political subdivisions. See “SELECTED FINANCIAL INFORMATION – Overlapping Taxes for 2021.”

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

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

The greater Houston area, including the District, has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days. According to the City, the District experienced no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the water supply, sanitary sewer, and drainage facilities serving the area within the District did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

Riverine (or Fluvial) Flood.

Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow overland. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood.

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

Coastal (or Storm Surge) Flood

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

Tax Collections

The District's ability to make debt service payments on the Bonds may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District will become highly fragmented among a large number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Registered Owners' Remedies

Pursuant to Texas law, the Resolution provides that if the District defaults in the payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions or obligations set forth in the Resolution, then the Registered Owners shall be entitled to seek a writ of mandamus from a court of proper jurisdiction to compel the District to perform its obligations or levy adequate taxes to make principal or interest payments on the Bonds. Such remedy would have to be exercised upon each separate default and may prove costly, time-consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, to protect the interests of the bondholders, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, the Registered Owners. The Resolution does not provide for acceleration of maturity of the Bonds upon any default; consequently, the remedy of mandamus may have to be relied upon from year to year.

Texas courts have held that districts such as the District are immune from suits for money damages under the doctrine of sovereign immunity. Further, if a judgment in such a suit could be obtained, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditor's rights generally.

In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, is insolvent or unable to meet its debts as they mature, (2) desires to effect a plan to adjust such debts, and (3) has either obtained the agreement of or has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in determining the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claims.

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

Marketability

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

Future Debt

The District has the right to issue the remaining \$20,675,000 authorized but unissued water, sewer and drainage unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The District also has the right to issue refunding bonds, bond anticipation notes and revenue bonds without voter approval. The District is also authorized to issue

\$1,730,000 in park bonds and \$23,925,000 in refunding bonds. The District requires City approval for the issuance of refunding bonds. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS – Issuance of Additional Debt.”

According to representatives of the Developer, following the issuance of the Bonds, and with respect to funds advanced by the Developer to date, the District will owe the Developer approximately \$2,000,000, as of April 22, 2022, for funds heretofore advanced on behalf of the District. The District has entered into agreements with the Developer to reimburse such amounts from the proceeds of future bond issues, subject to TCEQ approval of each bond issue.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the “1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On

May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a “serious” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

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

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement,

and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On June 9, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of “waters of the United States.” Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Changes in Tax Legislation

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

SOURCES AND USES OF FUNDS

Proceeds of the sale of the Bonds will be used for expenses associated with: (i) remaining costs for Landing at Delany Cove Section 11 water, wastewater and drainage; (ii) drainage culvert and water line relocation for Landing at Delany Cove Section 8; (iii) water, wastewater, and drainage facilities serving the Landing at Delany Cove Sections 12 and 13; (iv) retiring the BAN in the amount of \$786,000; and (vii) certain financing, legal and other costs related to the issuance of the Bonds as set forth below.

CONSTRUCTION COSTS		District's Share
A	Developer Contribution Items	
	1. Remaining Costs for Landing at Delany Cove Section 11	\$78,975
	2. Drainage Culvert & Water Relocation Landing at Delany Cove Section 8	161,522
	3. Landing at Delany Cove Section 12	421,391
	4. Landing at Delany Cove Section 13	350,258
	5. Engineering and Geotechnical Testing for Items No. 1-4	132,456
	6. Stormwater Pollution Prevention Planning	64,501
	Total Developer Contribution Items	\$1,209,103
	TOTAL CONSTRUCTION COSTS (70.3% of BIR)	\$1,209,103
	Less Surplus Funds Applied	(427,320)
	NET CONSTRUCTION COSTS	\$781,783
NON-CONSTRUCTION COSTS		
A	Legal Fees	\$40,000
B	Fiscal Agent Fees	14,000
C	Interest	
	1. Capitalized Interest (12 Months)	46,902
	2. Developer Interest	60,048
	3. BAN Interest	4,925
D	Bond Discount	33,538
E	Bond Issuance Expenses	37,820
F	BAN Issuance Expenses	
	1. Legal	7,860
	2. Financial Advisor	7,860
	3. Miscellaneous	6,869
G	Bond Application Report Costs	50,000
H	Attorney General Fee (0.10%)	1,120
I	TCEQ Bond Issuance Fee (0.25%)	2,800
J	Contingency	24,475
	TOTAL NONCONSTRUCTION	\$338,217
	TOTAL BOND ISSUE REQUIREMENT	\$1,120,000

THE DISTRICT

General

The District was created as Galveston County Municipal Utility District No. 32 by order of the TCEQ dated July 22, 2005, and by a confirmation election held within the District on November 8, 2005, and operates under Chapters 49 and 54 of the Texas Water Code, as amended, and other general laws of the State of Texas applicable to municipal utility districts.

At the time of the confirmation election, the District encompassed 169.1 acres. On November 16, 2007, the District annexed 98.2 acres, resulting in a total of 267.3 acres within the District.

Location

The District is located in northwestern Galveston County, Texas within the city limits of the City, which is approximately 35 miles southeast of the Houston Central Business District. The District is located north of F.M. 1765, southwest of Interstate Highway 45, east of F.M. 2004, and west of Delany Road. The District lies entirely within the corporate limits of the City.

Authority

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The District is authorized to issue its bonds to finance its water, sanitary sewer and drainage facilities, with the approval of the TCEQ and the Attorney General of Texas, to the extent authorized by the District's qualified voters. After the issuance of the Bonds, the District will have \$20,675,000 par amount in authorized but unissued water, sewer and drainage unlimited tax bonds payable from ad valorem taxes unlimited as to rate or amount. The District is also authorized to issue \$1,730,000 in unlimited tax bonds for park and recreational facilities and \$23,925,000 in unlimited tax bonds for refunding purposes. The District requires City approval for the issuance of refunding bonds.

Status of Development

The following chart more completely describes the status of residential development within the District as of May 12, 2022.

Subdivision	Acreage	Platted Lots	To Be Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
Delany Cove Sec. 1	20.15	78	0	78	0	0
Delany Cove Sec. 2	22.87	93	0	93	0	0
Meadows at Delany Cove Sec. 1	3.91	11	0	11	0	0
Landing at Delany Cove Sec. 1	6.84	32	0	32	0	0
Landing at Delany Cove Sec. 2	13.69	48	0	48	0	0
Landing at Delany Cove Sec. 3	7.70	40	0	40	0	0
Landing at Delany Cove Sec. 4	9.28	42	0	42	0	0
Landing at Delany Cove Sec. 5	9.75	46	0	46	0	0
Landing at Delany Cove Sec. 6	10.98	48	0	48	0	0
Landing at Delany Cove Sec. 7	10.70	52	0	43	0	9
Landing at Delany Cove Sec. 8	10.58	47	0	47	0	0
Landing at Delany Cove Sec. 9	9.71	39	0	38	0	1
Landing at Delany Cove Sec. 10	10.53	45	0	45	0	0
Landing at Delany Cove Sec. 11	11.02	51	0	51	0	0
Landing at Delany Cove Sec. 12	16.30	42	0	42	0	0
Landing at Delany Cove Sec. 13	11.90	56	0	1	47	8
Landing at Delany Cove Sec. 14 ^(a)	9.70	36	0	0	0	36
RV Resort	18.23	0	0	0	0	0
Future	6.50	0	0	0	0	0
Undevelopable	47.00	0	0	0	0	0
Total	267.3	806	0	705	47	54

^(a) Landing at Delany Cove, Section 14 is currently expected to be completed in June 2022.

Homebuilders

Recently completed homes within the District have been constructed by Lennar Homes, which is building homes in the District that range in price from the \$240,000s to the \$335,000s.

Lot Sale Contracts

Current take-down requirement is set at 24 lots per quarter. The home builder lot takedown in 2021 averaged 15 per month for Lennar.

Future Development

Landing at Delany Cove, Section 14 is currently expected to be completed in June 2022. Construction of Section 13 is complete and home construction is underway. 47 acres of the District are undevelopable. The District also contains 6.50 acres that are available for future commercial use. The District can make no representation that any future development will occur within the District. In the event that future development does occur in the District, it is anticipated that the development costs will be financed through the sale of future bond issues.

Community Facilities

Churches: No churches are located within the District; however, churches of most denominations are located within the general vicinity of the District.

Fire Protection: Fire protection is provided by the City.

Medical Facilities: The nearest major medical facility is Mainland Medical Center, a 223 bed acute care facility, located in the City of Texas City approximately five minutes from the District and which provides general and emergency care.

Recreational Facilities: The District contains a 1.7-acre recreation area which includes a playground, pavilion, skate park, volleyball court and walking trails. This amenity is for the exclusive use of Delany Cove residents, who pay an annual fee for the use of these facilities.

Schools: The District is located in the Hitchcock Independent School District. Hitchcock Independent School District provides bus transportation for District residents to the following state-accredited schools:

<u>School</u>	<u>Approximate Distance from District</u>
Hitchcock Primary School.....	2 miles
Crosby Middle School.....	3 miles
Hitchcock High School.....	3 miles

Shopping Facilities: Shopping facilities are located within close proximity to the District. Within two miles of the District are a Wal-Mart super center, a Sam's Club, other major retail stores, and the Mall of the Mainland, a major shopping mall that contains such stores as Palais Royal, Macy's, Dillard's and Sears.

THE DEVELOPER

Role of a Developer

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

The Developer

The developer of the District is Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership, doing business as Friendswood Development Company ("FDC" or the "Developer"). On May 30, 2008, FDC acquired all of the land located within the District from HLL Land Acquisitions/HLL II. FDC has developed Delany Cove, Sections 1 and 2, the Meadows at Delany Cove, Section 1 and Landing at Delany Cove Sections 1-14 as is described above under the caption "THE DISTRICT – Status of Development". FDC's sole general partner is U.S. Home, LLC, a Delaware limited liability company, which is wholly-owned by Lennar Corporation. Lennar Corporation is a publicly traded corporation whose stock is listed on the New York Stock Exchange. Audited financial statements for Lennar Corporation can be found online at <http://www.lennar.com/investor/investor>. Lennar Corporation is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the United States Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by Lennar Corporation can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Certain financial information concerning the Developer is included as part of the consolidated financial statements of Lennar Corporation. However, Lennar Corporation is not legally obligated to provide funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer. Further, neither the Developer nor Lennar Corporation is responsible for, is liable for or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of such financial statements and description of financial arrangements herein should not be construed as an implication to that effect. Neither the Developer nor Lennar Corporation has any legal commitment to the District or owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of the Developer and Lennar Corporation is subject to change at any time. Because of the foregoing, financial information concerning the Developer and Lennar Corporation will neither be updated nor provided following issuance of the Bonds, except as described herein under "CONTINUING DISCLOSURE OF INFORMATION."

UTILITY SERVICE CONTRACT BETWEEN THE DISTRICT AND THE CITY

The District and the City entered into a Utility Services Contract in November of 2004, and amended in October of 2007 ("Utility Services Contract") providing that the District will finance and construct water, sewer and drainage facilities to serve the District. Waterworks and sewage treatment facilities are conveyed to the City for ownership, operation and maintenance. Upon completion, the District remains responsible for any detention facilities required for the District, and the District receives no system revenues and the City does not contribute any of its tax revenues to the District.

THE SYSTEM

Regulation

According to the District's Engineer, IDS Engineering Group, previously Pate Engineers, Inc. ("Engineer"), the water distribution, wastewater collection and drainage facilities (the "System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City and Galveston County. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the TCEQ, as applicable.

Waterworks and sewage treatment facilities are constructed by the District. Waterworks and sewage treatment facilities are conveyed to the City for ownership, operation and maintenance, and are subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Water System

Water supply for District customers is provided pursuant to a Utility Services Contract with the City. The District's source of water is surface water purchased by the City from the Gulf Coast Water Authority and groundwater from wells owned and operated by the City. The City's water supply system that serves the District is capable of serving the 665 ESFC's necessary to support the feasibility of the Bonds.

Wastewater System

Pursuant to a Utility Services Contract between the City, the Developer and the District, the City has agreed to provide capacity for the ultimate wastewater discharge of the District. The City's wastewater system that serves the District is capable of serving the 665 (663 single family residential, 2 recreational) ESFC's necessary to support the feasibility of the Bonds.

100-Year Flood Plain

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

Atlas 14

The National Weather Service has completed a rainfall study known as NOAA Atlas 14. Volume 11, Version 2.0: Texas Precipitation Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries with the Service Area may be redrawn based on the Atlas 14 study based on revised statistical rainfall amounts, which may result in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the Service Area. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

DISTRICT BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Authorized</u>	<u>Issued To Date</u>	<u>Amount Unissued</u>
11/08/2005	Water, Sewer & Drainage ^(a)	\$36,950,000	\$16,275,000	\$20,675,000
11/08/2005	Parks & Recreation	1,730,000	0	1,730,000
11/08/2005	Refunding	24,000,000	\$75,000	23,925,000

(a) Includes the Bonds.

SELECTED FINANCIAL INFORMATION (Unaudited as of May 12, 2022)

2021 Certified Assessed Valuation ^(a)	\$144,696,389
Estimate of Assessed Valuation (as of January 1, 2022) ^(b)	\$167,915,796

Direct Debt:

Outstanding Debt	\$14,200,000
The Bonds	1,120,000
Total Direct Debt	<u>\$15,320,000</u>

Ratio of Direct Debt to:

2021 Certified Assessed Valuation	10.59%
Estimate of Assessed Valuation (as of January 1, 2022) ^(b)	9.12%

Area of District: 267.30 acres

(a) As certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Galveston County Appraisal District as of January 1, 2022. This amount is an estimate of taxable values of all taxable property located within the District. This estimate is prior to any protests, and the ultimate assessed valuation of any improvements added to the District's tax roll may vary from such estimate.

Total Outstanding Bonds

<u>Date of Issue</u>	<u>Series</u>	<u>Original Amount</u>	<u>Outstanding</u>	
07/23/2010	2010	\$2,360,000	\$85,000	
10/13/2016	2016	975,000	865,000	
07/18/2017	2017	2,000,000	1,940,000	
07/12/2018	2018	2,060,000	1,980,000	
05/09/2019	2019	2,390,000	2,280,000	
04/09/2020	2020	2,320,000	2,310,000	
07/08/2021	2021	3,050,000	3,050,000	
03/29/2022 ^(a)	2022	1,690,000	1,690,000	
07/07/2022 ^(b)	2022	1,120,000	1,120,000	^(c)
Total		\$17,965,000	\$15,320,000	^(c)

(a) Refunding bonds.

(b) Anticipated delivery date of the Bonds.

(c) Outstanding following the anticipated delivery of the Bonds.

Cash and Investment Balances (Unaudited at April 25, 2022)

General Fund	Cash and Temporary Investments	\$145,241
Capital Projects Fund ^(a)	Cash and Temporary Investments	\$472,475
Debt Service Fund ^(b)	Cash and Temporary Investments	\$1,133,110

(a) It is anticipated that the District will contribute \$427,320 to pay a portion of construction costs of the Bonds. See "SOURCES AND USES OF FUNDS".

(b) In addition to this amount, twelve (12) months of capitalized interest will be deposited into the District's debt service fund upon closing and delivery of the Bonds. Neither Texas law nor the Resolution requires that the District maintain any particular sum in the debt service fund.

Estimated Overlapping Debt Statement

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

Taxing Body ^(a)	Outstanding Gross Debt	As of	%Overlpg. Gross Debt	Overlpg. Gross Debt
College of the Mainland	\$165,985,000	04/30/2022	0.80%	\$1,327,880
Galveston County	190,346,661	04/30/2022	0.29%	552,005
Hitchcock ISD	25,069,187	04/30/2022	11.50%	2,882,957
La Marque, City of	28,764,452	04/30/2022	9.44%	2,715,364
Total Overlapping Debt:				<u>\$7,478,206</u>
The District ^(b)				\$15,320,000
Total Direct and Ovlpg Debt: ^(b)				\$22,798,206
Total Direct and Ovlpg Debt % of A.V.:				15.76%

(a) Taxing jurisdictions with outstanding debt.

(b) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes for 2021

Overlapping Entity	2021 Tax Rate Per \$100 AV
The City of La Marque	\$0.550764
Galveston County Drainage District #2	0.048552
College of the Mainland	0.267700
The District	0.750000
Galveston County (including Road & Flood)	0.424500
Hitchcock ISD	1.072000
Total	<u>\$3.113516</u>

Classification of Assessed Valuation

The following represents the type of property comprising the 2017 – 2021 tax rolls:

	2021 Assessed Valuation (a)	2020 Assessed Valuation (a)	2019 Assessed Valuation (b)	2018 Assessed Valuation (b)	2017 Assessed Valuation (b)
Land	\$23,982,910	\$21,324,230	\$20,054,370	\$16,954,630	\$13,401,860
Improvements	129,478,811	104,866,069	80,495,000	58,124,087	43,870,287
Personal Property	528,880	492,570	430,100	347,040	259,930
	\$153,990,601	\$126,682,869	\$100,979,470	\$75,425,757	\$57,532,077
Exemptions	(9,294,212)	(6,310,644)	(5,018,143)	(2,575,009)	(1,474,963)
Total	\$144,696,389	\$120,372,225	\$95,961,327	\$72,850,748	\$56,057,114

(a) As certified by the Galveston County Appraisal District.

(b) Source: the District's audited financial statements.

Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the District's tax assessor/collector. Reference is made to such audits and records for further and complete information. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation	Tax Rate	Levy	Collections as of Tax Year End		Collections Through April 30, 2022	
				Amount	%	Amount	%
2016	\$38,100,766	\$0.75	\$285,755	\$283,933	99.36%	\$285,755	100.00%
2017	56,057,114	0.75	420,428	418,239	99.48%	420,428	100.00%
2018	72,850,748	0.75	546,381	542,940	99.37%	546,381	100.00%
2019	95,961,327	0.75	719,710	685,145	95.20%	719,710	100.00%
2020	120,372,225	0.75	902,792	895,724	99.22%	896,835	99.34%
2021	144,696,389	0.75	1,087,039	(a)	(a)	1,057,719	97.30%

(a) In process of collection.

District Tax Rate

	2021	2020	2019	2018	2017
Debt Service Fund	\$0.640	\$0.650	\$0.630	\$0.660	\$0.390
Maintenance & Operation	0.110	0.100	0.120	0.090	0.360
Total	\$0.750	\$0.750	\$0.750	\$0.750	\$0.750

Tax Rate Limitation

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

Maintenance: \$1.50 per \$100 of Assessed Valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. An election was held within the District on November 8, 2005, which authorized the levy of a maintenance tax not to exceed \$1.50/\$100 assessed valuation. The District levied a maintenance tax of \$0.111 per \$100 of assessed valuation for tax year 2021.

Because the District provides no water and sanitary sewer services, its sole source of operation and maintenance funds, including funds for maintenance of detention facilities, are proceeds of the maintenance tax. See "OPERATING STATEMENT."

Additional Penalties

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

Principal Taxpayers

The following list of top ten principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2020 and 2021 certified tax rolls of the District as of January 1 of each year.

Taxpayer	Property Type	2021	2020
Lennar Homes of Texas Land	Home Builder	\$3,043,800	\$2,632,950
Starship Dowlen LP	Mobile Homes/Parks	3,000,000	2,000,000
CenterPoint Energy Houston	Electric Utility/Power Plant	428,000	411,030
Homeowner	Individual Residence	345,477	-
Homeowner	Individual Residence	328,170	-
Homeowner	Individual Residence	324,750	-
Homeowner	Individual Residence	321,980	-
Homeowner	Individual Residence	319,020	-
Homeowner	Individual Residence	317,361	-
Homeowner	Individual Residence	317,110	301,580
GreenEco Builders LLC	Home Builder	-	3,407,780
Homeowner	Individual Residence	-	314,070
Homeowner	Individual Residence	-	303,470
Homeowner	Individual Residence	-	302,220
Homeowner	Individual Residence	-	297,850
Homeowner	Individual Residence	-	296,120
Total		\$8,745,668	\$10,267,070
% of Assessed Value		6.04%	8.53%

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2021 Certified Assessed Valuation or the Estimate of Assessed Valuation as of January 1, 2022, as indicated, and utilize tax rates adequate to service the District's total proposed debt service requirements on the Bonds. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirements including the Bonds (2022 through 2047)	\$875,542
\$0.64 Tax Rate on 2021 Certified Assessed Valuation of \$144,696,389 @ 95% collections produces	\$879,754
\$0.55 Tax Rate on Estimate of Assessed Valuation (as of January 1, 2022) \$167,915,796 @ 95% collections produces	\$877,360
Maximum Annual Debt Service Requirements including the Bonds (2046)	\$903,125
\$0.66 Tax Rate on 2021 Certified Assessed Valuation of \$144,696,389 @ 95% collections produces	\$907,246
\$0.57 Tax Rate on Estimate of Assessed Valuation (as of January 1, 2022) \$167,915,796 @ 95% collections produces	\$909,264

Debt Service Fund

Debt Service Fund Balance as of April 25, 2022.....	\$1,133,110 ^(a)
Remaining Debt Service Requirements for calendar year ending 2023	\$869,241 ^(b)

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- (a) In addition to this amount, twelve (12) months of capitalized interest will be deposited into the District's debt service fund upon closing and delivery of the Bonds. Neither Texas law nor the Resolution requires that the District maintain any particular sum in the Debt Service Fund.
- (b) Represents the first annual debt service payment of the Bonds in year ending in 2023.

OPERATING STATEMENT

Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's System. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements for the fiscal year ending July 31. Reference is made to such statements for further and more complete information.

	<u>2021</u> (a)	<u>2020</u> (a)	<u>2019</u> (a)	<u>2018</u> (a)	<u>2017</u> (a)
REVENUES:					
Property Taxes	\$ 122,074	\$ 113,378	\$ 66,681	\$ 200,499	\$ 57,901
Investment Income	<u>76</u>	<u>173</u>	<u>203</u>	<u>122</u>	<u>21</u>
TOTAL REVENUES	<u>\$ 122,150</u>	<u>\$ 113,551</u>	<u>\$ 66,884</u>	<u>\$ 200,621</u>	<u>\$ 57,922</u>
EXPENDITURES:					
Professional Fees	\$ 90,576	\$ 72,848	\$ 69,530	\$ 64,134	\$ 86,713
Contracted Services	11,100	11,025	10,838	10,988	9,900
Repairs and Maintenance	12,173	2,070		13,868	31,835
Administrative Expenses	17,382	14,298	19,459	13,397	15,173
Other Operating Expenditures	<u>1,811</u>	<u>2,900</u>	<u>316</u>	<u>-</u>	<u>1,935</u>
TOTAL EXPENDITURES	<u>\$ 133,042</u>	<u>\$ 103,141</u>	<u>\$ 100,143</u>	<u>\$ 102,387</u>	<u>\$ 145,556</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (10,892)</u>	<u>\$ 10,410</u>	<u>\$ (33,259)</u>	<u>\$ 98,234</u>	<u>\$ (87,634)</u>
OTHER FINANCING SOURCES (USES)					
Developer Advance				\$ 10,000	\$ 90,000
Internal Transfer			\$ 12,330	\$ 11,539	\$ 6,975
NET CHANGE IN FUND BALANCE	\$ (10,892)	\$ 10,410	\$ (20,929)	\$ 119,773	\$ 9,341
BEGINNING FUND BALANCE	<u>\$ 109,056</u>	<u>\$ 98,646</u>	<u>\$ 119,575</u>	<u>\$ (198)</u>	<u>\$ (9,539)</u>
ENDING FUND BALANCE	<u>\$ 98,164</u>	<u>\$ 109,056</u>	<u>\$ 98,646</u>	<u>\$ 119,575</u>	<u>\$ (198)</u>

(a) Revenue and Expenditure sections are from the District's Audited Annual Financial Reports.

MANAGEMENT

Board of Directors

The current directors of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff D. Braun	President	May, 2024
William Thompson	Vice President	May, 2024
Dottie J. Hayter	Assistant Vice President	May, 2026
Erik Haaland	Secretary	May, 2026
Bredawn Riley	Assistant Secretary	May, 2024

Each of the Directors owns property in the District subject to a note and deed of trust in favor of the Developer. Directors have four-year terms staggered every two years. Elections are held only in even numbered years on the first Saturday in May.

Tax Assessor/Collector

The tax assessor/collector for the District is Assessments of the Southwest, Inc.

Operator of Water and Sewer Facilities

The City, pursuant to the Utility Services Contract between the District and the City, operates the District's water and sewer system. See "UTILITY SERVICE AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LA MARQUE."

Bookkeeper

Myrtle Cruz, Inc. acts as Bookkeeper for the District.

Engineer

The consulting engineer for the District is IDS Engineering Group.

Bond Counsel/General Counsel

The District employs Allen Boone Humphries Robinson LLP as Bond Counsel in connection with the issuance of bonds by the District. Such firm also acts as general counsel for the District on other matters. The fees paid to Bond Counsel as bond counsel are contingent on the delivery of the Bonds.

Disclosure Counsel

The District has engaged Bracewell LLP as Disclosure Counsel in connection with the issuance of this series of Bonds by the District.

DEBT SERVICE SCHEDULE

Year End 12/31	Outstanding Debt Service	The Bonds				Total
		Principal Due 9/1	Interest Due 3/1	Interest Due 9/1	Total Principal & Interest	
2022	\$809,011.51	\$0.00	\$0.00	\$0.00	\$0.00	\$809,011.51
2023	798,840.00	15,000.00	31,313.75	24,087.50	70,401.25	869,241.25
2024	797,027.00	25,000.00	23,581.25	23,581.25	72,162.50	869,189.50
2025	794,723.00	25,000.00	22,737.50	22,737.50	70,475.00	865,198.00
2026	796,959.00	25,000.00	21,893.75	21,893.75	68,787.50	865,746.50
2027	793,489.00	25,000.00	21,050.00	21,050.00	67,100.00	860,589.00
2028	801,795.50	20,000.00	20,206.25	20,206.25	60,412.50	862,208.00
2029	799,321.00	25,000.00	19,531.25	19,531.25	64,062.50	863,383.50
2030	801,025.50	20,000.00	19,062.50	19,062.50	58,125.00	859,150.50
2031	802,304.00	20,000.00	18,687.50	18,687.50	57,375.00	859,679.00
2032	809,009.00	20,000.00	18,312.50	18,312.50	56,625.00	865,634.00
2033	815,322.00	15,000.00	17,937.50	17,937.50	50,875.00	866,197.00
2034	816,100.24	15,000.00	17,656.25	17,656.25	50,312.50	866,412.74
2035	841,374.98	10,000.00	17,375.00	17,375.00	44,750.00	886,124.98
2036	843,322.48	10,000.00	17,187.50	17,187.50	44,375.00	887,697.48
2037	844,491.24	0.00	17,000.00	17,000.00	34,000.00	878,491.24
2038	849,896.24	0.00	17,000.00	17,000.00	34,000.00	883,896.24
2039	848,866.24	0.00	17,000.00	17,000.00	34,000.00	882,866.24
2040	852,103.74	0.00	17,000.00	17,000.00	34,000.00	886,103.74
2041	859,257.50	0.00	17,000.00	17,000.00	34,000.00	893,257.50
2042	860,197.50	0.00	17,000.00	17,000.00	34,000.00	894,197.50
2043	864,825.00	0.00	17,000.00	17,000.00	34,000.00	898,825.00
2044	867,750.00	0.00	17,000.00	17,000.00	34,000.00	901,750.00
2045	868,125.00	0.00	17,000.00	17,000.00	34,000.00	902,125.00
2046	869,125.00	0.00	17,000.00	17,000.00	34,000.00	903,125.00
2047		850,000.00	17,000.00	17,000.00	884,000.00	884,000.00
	<u>\$20,704,261.67</u>	<u>\$1,120,000.00</u>	<u>\$473,532.50</u>	<u>\$466,306.25</u>	<u>\$2,059,838.75</u>	<u>\$22,764,100.42</u>

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “SELECTED FINANCIAL INFORMATION – Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by the federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty (20) percent of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. The District has not adopted a residential homestead exemption for persons sixty-five years of age or older and certain disabled persons. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran claiming the exemption if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full value of the residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption is transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. See "SELECTED FINANCIAL INFORMATION – Classification of Assessed Valuation."

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

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

A residence homestead is required to be appraised solely on the basis of its value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized herein. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

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

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Tax Abatement

Galveston County may designate all or part of the area within the District as a reinvestment zone. The City also may designate property within its boundaries or its extraterritorial jurisdiction ("ETJ") as a reinvestment zone. Thereafter, Galveston County or the City at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements need not be the same. To date, none of the area within the District has been designated as a reinvestment zone.

Tax Payment Installments after Disaster

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below.

Special Taxing Units

Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts

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

Developing Districts

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

The District

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

1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

District Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "SELECTED FINANCIAL INFORMATION – Overlapping Taxes for 2021"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens

on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under “Levy and Collection of Taxes.” In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the 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 for residential property and agricultural property, or 6 months for commercial property and all other types of property after the purchaser’s deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District’s ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District’s tax lien and a federal tax lien are on par with the ultimate priority being determined by the applicable federal law. See “RISK FACTORS – General” and “RISK FACTORS – Tax Collections.”

LEGAL MATTERS

Legal Proceedings

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

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

Allen Boone Humphries Robinson LLP also serves as counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by Bracewell LLP as disclosure counsel. The fees of disclosure counsel are contingent upon the sale of the Bonds.

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the

officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

No Material Adverse Change

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

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

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

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

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

Bond Counsel's opinions are based on existing law which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to

determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2022 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2022.

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS," on the cover page hereof, at a price of 97.005536% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.189630% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the "IBA" method).

Prices and Marketability

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

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

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

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions

contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATING

S&P Global Ratings a division of Standard & Poor's Financial Services LLC ("S&P") has assigned its municipal bond rating of "AA" and Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "A1" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp ("AGM" or the "Bond Insurer").

Additionally, Moody's has assigned the Bonds an underlying rating of "Baa3." An explanation of the significance of such ratings may be obtained from S&P and Moody's. These ratings reflect only the views of S&P and Moody's, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if in the sole judgment of S&P and/or Moody's circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds. See "MUNICIPAL BOND INSURANCE".

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 18, 2022, Moody's announced it had upgraded AGM's insurance financial strength rating to "A1" (stable outlook) from "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On October 20, 2021, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Capitalization of AGM

At March 31, 2022:

- The policyholders' surplus of AGM was approximately \$2,909 million.
- The contingency reserve of AGM was approximately \$893 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,116 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

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

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (filed by AGL with the SEC on February 25, 2022); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (filed by AGL with the SEC on May 6, 2022).

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

Any information regarding AGM included herein under the caption “MUNICIPAL BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

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

MUNICIPAL BOND INSURANCE RISK FACTORS

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

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

Neither the District or the Underwriter has made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

FINANCIAL ADVISOR

The District has employed the firm of RBC Capital Markets, LLC as financial advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor is employed by the District and has participated in the preparation of the Official Statement, however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third parties. See “PREPARATION OF OFFICIAL STATEMENT – Consultants.”

PREPARATION OF OFFICIAL STATEMENT

Consultants

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

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

Tax Assessor/Collector. The information contained in this Official Statement relating to the District’s historical assessed valuation of property has been provided by Assessments of the Southwest, Inc. in reliance upon their authority as experts in the field of tax assessing and tax collecting.

Auditor. The District's financial statements, which are audited by McGrath & Co., PLLC as of July 31, 2021 have been included as "APPENDIX A."

Certification as to Official Statement

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

Updating of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB through its EMMA system.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings "SELECTED FINANCIAL INFORMATION," (except for "Estimated Overlapping Debt Statement" and "Overlapping Taxes for 2021") and "APPENDIX A" (Financial Statements of the District). The District will update and provide this information except the "Estimated Overlapping Debt Statement" and "Overlapping Taxes for 2021" within six months after the end of each of its fiscal years ending in or after 2022. The District will provide the updated information to EMMA.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is July 31. Accordingly, it must provide updated information by January 31 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 provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”).

The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its continuing disclosure undertakings in accordance with SEC Rule 15c2-12, except as described below:

Due to an administrative oversight, the District filed its correct annual report for the fiscal year ended July 31, 2014 on March 30, 2016, which was more than six months after the end of the District's July 31, 2014 fiscal year. The District filed an associated Notice of Late Filing with the MSRB through the EMMA internet portal on June 6, 2017.

On March 22, 2022, the District issued its \$1,690,000 Unlimited Tax Refunding Bonds, Series 2022 (the "Series 2022 Refunding Bonds") in a private placement transaction. Due to administrative oversight, an Event Notice regarding the issuance of the Series 2022 Refunding Bonds was not filed within 10 business days. The Event Notice was filed with the MSRB through the EMMA internet portal, on May 9, 2022.

MISCELLANEOUS

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

/s/

Jeff D. Braun
President, Board of Directors
Galveston County Municipal Utility District No. 32

/s/

Erik Haaland
Secretary, Board of Directors
Galveston County Municipal Utility District No. 32

AERIAL PHOTOGRAPH
(February 2021)



PHOTOGRAPHS
(May 2022)



Delany Cove Entrance



Single-Family Home



Single-Family Home



Single-Family Home



Single-Family Home Under Construction



Single-Family Home

APPENDIX A

Audited Financial Statements

The information contained in this appendix has been excerpted from the audit report of Galveston County Municipal Utility District No. 32 for the period ended July 31, 2021. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**GALVESTON COUNTY MUNICIPAL
UTILITY DISTRICT NO. 32**

GALVESTON COUNTY, TEXAS

FINANCIAL REPORT

July 31, 2021

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McGRATH & CO., PLLC

Certified Public Accountants
2900 North Loop West, Suite 880
Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Galveston County Municipal Utility District No. 32
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Municipal Utility District No. 32, as of and for the year ended July 31, 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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

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

***Board of Directors
Galveston County Municipal Utility District No. 32
Galveston County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Galveston County Municipal Utility District No. 32, as of July 31, 2021, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

WCG & Co, LLC

Houston, Texas
November 4, 2021

Management's Discussion and Analysis

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Galveston County Municipal Utility District No. 32
Management's Discussion and Analysis
July 31, 2021

Using this Annual Report

Within this section of the financial report of Galveston County Municipal Utility District No. 32 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended July 31, 2021. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at July 31, 2021, was negative \$12,652,315. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of La Marque. A comparative summary of the District's overall financial position, as of July 31, 2021 and 2020, is as follows:

	2021	2020
Current and other assets	\$ 1,688,999	\$ 1,127,774
Capital assets	1,716,147	729,945
Total assets	<u>3,405,146</u>	<u>1,857,719</u>
Current liabilities	424,554	398,131
Long-term liabilities	15,632,907	12,821,175
Total liabilities	<u>16,057,461</u>	<u>13,219,306</u>
Net position		
Net investment in capital assets	(937,145)	(490,083)
Restricted	852,567	647,340
Unrestricted	(12,567,737)	(11,518,844)
Total net position	<u>\$ (12,652,315)</u>	<u>\$ (11,361,587)</u>

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The total net position of the District decreased during the current fiscal year by \$1,290,728. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2021	2020
Revenues		
Property taxes, penalties and interest	\$ 909,545	\$ 727,377
Other	823	2,002
Total revenues	<u>910,368</u>	<u>729,379</u>
Expenses		
Operating and administrative	219,053	221,972
Debt interest and fees	434,136	390,358
Developer interest	87,649	151,645
Debt issuance costs	206,353	254,898
Depreciation	4,841	4,841
Total expenses	<u>952,032</u>	<u>1,023,714</u>
Change in net position before other item	(41,664)	(294,335)
Other item		
Transfers to other governments	<u>(1,249,064)</u>	<u>(970,343)</u>
Change in net position	(1,290,728)	(1,264,678)
Net position, beginning of year	<u>(11,361,587)</u>	<u>(10,096,909)</u>
Net position, end of year	<u><u>\$ (12,652,315)</u></u>	<u><u>\$ (11,361,587)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of July 31, 2021, were \$1,592,404, which consists of \$98,164 in the General Fund, \$1,021,622 in the Debt Service Fund and \$472,618 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of July 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 114,500</u>	<u>\$ 124,798</u>
Total liabilities	\$ 15,249	\$ 13,502
Total deferred inflows	1,087	2,240
Total fund balance	98,164	109,056
Total liabilities, deferred inflows and fund balance	<u><u>\$ 114,500</u></u>	<u><u>\$ 124,798</u></u>

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

	2021	2020
Total revenues	\$ 122,150	\$ 113,551
Total expenditures	(133,042)	(103,141)
Revenues over/(under) expenditures	<u>\$ (10,892)</u>	<u>\$ 10,410</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance levy, property tax revenues increased from prior year because assessed values increased from prior year.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of July 31, 2021 and 2020, is as follows:

	2021	2020
Total assets	<u>\$ 1,030,152</u>	<u>\$ 816,669</u>
Total liabilities	\$ -	\$ 1,584
Total deferred inflows	8,530	14,281
Total fund balance	<u>1,021,622</u>	<u>800,804</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,030,152</u>	<u>\$ 816,669</u>

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

	2021	2020
Total revenues	\$ 794,942	\$ 603,259
Total expenditures	(648,644)	(470,563)
Revenues over expenditures	146,298	132,696
Other changes in fund balance	74,520	69,442
Net change in fund balance	<u>\$ 220,818</u>	<u>\$ 202,138</u>

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

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Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of July 31, 2021 and 2020, is as follows:

	2021	2020
Total assets	<u>\$ 474,338</u>	<u>\$ 155,538</u>
Total liabilities	\$ 1,720	\$ 300
Total fund balance	472,618	155,238
Total liabilities and fund balance	<u>\$ 474,338</u>	<u>\$ 155,538</u>

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

	2021	2020
Total revenues	\$ 178	\$ 492
Total expenditures	<u>(2,633,278)</u>	<u>(2,266,208)</u>
Revenues under expenditures	(2,633,100)	(2,265,716)
Other changes in fund balance	2,950,480	2,231,290
Net change in fund balance	<u>\$ 317,380</u>	<u>\$ (34,426)</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2020 Bond Anticipation Note and Series 2021 Unlimited Tax Bonds in the current year and issuance of its Series 2019 Bond Anticipation Note and Series 2020 Unlimited Tax Bonds in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$11,790 greater than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Galveston County Municipal Utility District No. 32
Management's Discussion and Analysis
July 31, 2021

Capital assets held by the District at July 31, 2021 and 2020, are summarized as follows:

	2021	2020
Capital assets not being depreciated		
Land and improvements	\$ 1,538,062	\$ 547,019
Capital assets being depreciated		
Stormwater detention facilities	193,621	193,621
Less accumulated depreciation	(15,536)	(10,695)
Depreciable capital assets, net	178,085	182,926
Capital assets, net	\$ 1,716,147	\$ 729,945

The District and the City of La Marque (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. Detention facilities and certain other capital assets are retained by the District. For the year ended July 31, 2021, capital assets in the amount of \$1,249,064 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 11.

Long-Term Debt and Related Liabilities

As of July 31, 2021, the District owes approximately \$1,547,481 to its developer for completed projects. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$396,856 for a project under construction by the developer. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At July 31, 2021 **and 2020**, the District had total bonded debt outstanding as shown below:

Series	2021	2020
2010	\$ 1,780,000	\$ 1,855,000
2016	890,000	915,000
2017	1,960,000	1,980,000
2018	2,020,000	2,060,000
2019	2,335,000	2,390,000
2020	2,320,000	2,320,000
2021	3,050,000	
	\$ 14,355,000	\$ 11,520,000

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During the current year, the District issued \$3,050,000 in unlimited tax bonds. At July 31, 2021, the District had \$21,795,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$1,730,000 for parks and recreational facilities and \$24,000,000 for refunding purposes.

During the current year, the District issued a \$1,500,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District repaid the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	2021 Actual	2022 Budget
Total revenues	\$ 122,150	\$ 117,998
Total expenditures	(133,042)	(151,025)
Revenues under expenditures	(10,892)	(33,027)
Beginning fund balance	109,056	98,164
Ending fund balance	<u>\$ 98,164</u>	<u>\$ 65,137</u>

Property Taxes

The District's property tax base increased approximately \$18,011,000 for the 2021 tax year from \$120,406,970 to \$138,418,020. This increase was primarily due to increased property values. For the 2021 tax year, the District has levied a maintenance tax rate of \$0.11 per \$100 of assessed value and a debt service tax rate of \$0.64 per \$100 of assessed value, for a total combined tax rate of \$0.75 per \$100. Tax rates for the 2020 tax year were \$0.10 per \$100 for maintenance and operations and \$0.65 per \$100 for debt service for a combined total of \$0.75 per \$100 of assessed value.

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Basic Financial Statements

Galveston County Municipal Utility District No. 32
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 110,188	\$ 1,021,426	\$ 474,338	\$ 1,605,952	\$ -	\$ 1,605,952
Taxes receivable	1,087	8,530		9,617		9,617
Internal balances	118	(118)				
Prepaid insurance	3,107			3,107		3,107
Other receivables		314		314		314
Prepaid bond insurance, net					70,009	70,009
Capital assets not being depreciated					1,538,062	1,538,062
Capital assets, net					178,085	178,085
Total Assets	<u>\$ 114,500</u>	<u>\$ 1,030,152</u>	<u>\$ 474,338</u>	<u>\$ 1,618,990</u>	<u>1,786,156</u>	<u>3,405,146</u>
Liabilities						
Accounts payable	\$ 15,249	\$ -	\$ 1,720	\$ 16,969		16,969
Accrued interest payable					177,585	177,585
Due to developer					1,547,481	1,547,481
Long-term debt						
Due within one year					230,000	230,000
Due after one year					14,085,426	14,085,426
Total Liabilities	<u>15,249</u>		<u>1,720</u>	<u>16,969</u>	<u>16,040,492</u>	<u>16,057,461</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>1,087</u>	<u>8,530</u>		<u>9,617</u>	<u>(9,617)</u>	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	3,107			3,107	(3,107)	
Restricted		1,021,622	472,618	1,494,240	(1,494,240)	
Unassigned	95,057			95,057	(95,057)	
Total Fund Balances	<u>98,164</u>	<u>1,021,622</u>	<u>472,618</u>	<u>1,592,404</u>	<u>(1,592,404)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 114,500</u>	<u>\$ 1,030,152</u>	<u>\$ 474,338</u>	<u>\$ 1,618,990</u>		
Net Position						
Net investment in capital assets					(937,145)	(937,145)
Restricted for debt service					852,567	852,567
Unrestricted					(12,567,737)	(12,567,737)
Total Net Position					<u>\$(12,652,315)</u>	<u>\$(12,652,315)</u>

See notes to basic financial statements.

Galveston County Municipal Utility District No. 32
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 122,074	\$ 786,826	\$ -	\$ 908,900	\$ (5,851)	\$ 903,049
Penalties and interest		7,547		7,547	(1,051)	6,496
Investment earnings	76	569	178	823		823
Total Revenues	122,150	794,942	178	917,270	(6,902)	910,368
Expenditures/Expenses						
Operating and administrative						
Professional fees	90,576		59,783	150,359		150,359
Contracted services	11,100	19,419		30,519		30,519
Repairs and maintenance	12,173			12,173		12,173
Administrative	17,382	3,983		21,365		21,365
Other	1,811	2,671	155	4,637		4,637
Capital outlay			2,226,374	2,226,374	(2,226,374)	
Debt service						
Principal		215,000		215,000	(215,000)	
Interest and fees		407,571	10,874	418,445	15,691	434,136
Developer interest			87,649	87,649		87,649
Debt issuance costs			248,443	248,443	(42,090)	206,353
Depreciation					4,841	4,841
Total Expenditures/Expenses	133,042	648,644	2,633,278	3,414,964	(2,462,932)	952,032
Revenues Over/(Under)	(10,892)	146,298	(2,633,100)	(2,497,694)	2,497,694	(41,664)
Expenditures/Expenses						
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		74,520	2,975,480	3,050,000	(3,050,000)	
Proceeds from bond anticipation note			1,500,000	1,500,000	(1,500,000)	
Repayment of bond anticipation note			(1,500,000)	(1,500,000)	1,500,000	
Repayment of developer advances			(25,000)	(25,000)	25,000	
Other Item						
Transfers to other governments					(1,249,064)	(1,249,064)
Net Change in Fund Balances	(10,892)	220,818	317,380	527,306	(527,306)	
Change in Net Position					(1,290,728)	(1,290,728)
Fund Balance/Net Position						
Beginning of the year	109,056	800,804	155,238	1,065,098	(12,426,685)	(11,361,587)
End of the year	<u>\$ 98,164</u>	<u>\$1,021,622</u>	<u>\$ 472,618</u>	<u>\$ 1,592,404</u>	<u>\$ (14,244,719)</u>	<u>\$ (12,652,315)</u>

See notes to basic financial statements.

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Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Galveston County Municipal Utility District No. 32 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated July 22, 2005, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on August 23, 2005 and the first bonds were issued on July 23, 2010.

The District’s primary activities include construction of water, sewer and drainage facilities. As further discussed in Note 11, the District transfers these facilities to the City of La Marque for operation and maintenance upon completion of construction, with the exception of detention facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Prepaid Items

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

Prepaid Bond Insurance

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At July 31, 2021, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets consist of stormwater detention facilities, which are depreciated using the straight-line method over an estimated useful life of 40 years. Additionally, pursuant to the Utility Agreement discussed in Note 11, certain developer financed outlays for capital assets and improvements are recorded as transfers to other governments upon completion of construction.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

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

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

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

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

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of La Marque and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$ 1,592,404
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Prepaid bond insurance is recorded as an expenditure in the funds, but is recorded as a prepaid asset and amortized in the government-wide statements.	70,009
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resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 1,731,683	
Less accumulated depreciation	<u>(15,536)</u>	
Change due to capital assets		1,716,147

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:

Bonds payable, net	(14,315,426)	
Interest payable on bonds	<u>(177,585)</u>	
Change due to long-term debt		(14,493,011)

Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> .	(1,547,481)
--	-------------

Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	9,617
--	-------

Total net position - governmental activities	<u><u>\$ (12,652,315)</u></u>
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Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

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

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

Net change in fund balances - total governmental funds	\$ 527,306
--	------------

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

(6,902)

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

Issuance of long-term debt	\$ (3,050,000)	
Issuance of bond anticipation note	(1,500,000)	
Principal payments	215,000	
Repayment of bond anticipation note	1,500,000	
Prepaid bond insurance	42,090	
Interest expense accrual	<u>(15,691)</u>	
		(2,808,601)

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	2,226,374	
Depreciation expense	<u>(4,841)</u>	
		2,221,533

Amounts repaid to the District's developer for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*.

25,000

The District conveys certain infrastructure to the City of La Marque upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments.

(1,249,064)

Change in net position of governmental activities	<u><u>\$ (1,290,728)</u></u>
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Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at July 31, 2021, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 118	Maintenance tax collections not remitted as of year end

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

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended July 31, 2021, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 547,019	\$ 991,043	\$ 1,538,062
Capital assets being depreciated			
Stormwater detention facilities	193,621		193,621
Less accumulated depreciation	(10,695)	(4,841)	(15,536)
Subtotal depreciable capital assets, net	182,926	(4,841)	178,085
Capital assets, net	\$ 729,945	\$ 986,202	\$ 1,716,147

Depreciation expense for the current year was \$4,841.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developer. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On September 17, 2020, the District issued a \$1,500,000 BAN with an interest rate of 0.90%, which was due on September 16, 2021. The district paid this BAN in advance of the due date on July 8, 2021, with proceeds from the issuance of its Series 2021 Unlimited Tax Bonds.

Note 7 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer and drainage facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District's developer has also advanced funds to the District for operating expenses.

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 7 – Due to Developer (continued)

Changes in the estimated amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$	1,558,748
Developer reimbursements		(2,226,374)
Developer funded construction and adjustments		2,240,107
Repayment of operating advances		(25,000)
Due to developer, end of year	\$	<u>1,547,481</u>

In addition, the District will owe the developer approximately \$396,856, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Amounts Paid</u>	<u>Remaining Commitment</u>
Landing at Delany Cove, Section 13 - utilities	\$ 396,856	\$ 267,858	\$ 128,998

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 14,355,000
Unamortized discounts	(104,866)
Unamortized premium	65,292
	<u>\$ 14,315,426</u>
 Due within one year	 <u>\$ 230,000</u>

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 8 – Long-Term Debt (continued)

The District's bonds payable at July 31, 2021, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2010	\$ 1,780,000	\$ 2,360,000	4.00% - 5.375%	September 1, 2011 - 2034	September 1, March 1	September 1, 2019
2016	890,000	975,000	2.00% - 3.50%	September 1, 2017 - 2041	September 1, March 1	September 1, 2025
2017	1,960,000	2,000,000	3.00% - 3.80%	September 1, 2019 - 2042	September 1, March 1	September 1, 2026
2018	2,020,000	2,060,000	2.50% - 4.00%	September 1, 2020 - 2043	September 1, March 1	September 1, 2023
2019	2,335,000	2,390,000	2.00% - 3.25%	September 1, 2020 - 2044	September 1, March 1	September 1, 2025
2020	2,320,000	2,320,000	2.50% - 4.00%	September 1, 2021 - 2045	September 1, March 1	September 1, 2025
2021	3,050,000	3,050,000	2.00% - 5.00%	September 1, 2022 - 2046	September 1, March 1	September 1, 2026
	<u>\$ 14,355,000</u>					

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

At July 31, 2021, the District had authorized but unissued bonds in the amount of \$21,795,000 for water, sewer and drainage facilities; \$1,730,000 for park and recreational facilities; and \$24,000,000 for refunding purposes.

On July 8, 2021, the District issued its \$3,050,000 Series 2021 Unlimited Tax Bonds at a net effective interest rate of 2.337522%. Proceeds of the bonds were used to (1) reimburse the developer for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds; (2) to repay a \$1,500,000 BAN issued in the current year; and (3) to pay capitalized interest into the Debt Service Fund.

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 8 – Long-Term Debt (continued)

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

Bonds payable, beginning of year	\$	11,520,000
Bonds issued		3,050,000
Bonds retired		(215,000)
Bonds payable, end of year	\$	<u>14,355,000</u>

As of July 31, 2021, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2022	\$ 230,000	\$ 454,908	\$ 684,908
2023	340,000	471,650	811,650
2024	355,000	458,663	813,663
2025	365,000	444,870	809,870
2026	380,000	430,295	810,295
2027	395,000	414,952	809,952
2028	410,000	399,746	809,746
2029	430,000	384,634	814,634
2030	445,000	368,458	813,458
2031	465,000	351,173	816,173
2032	485,000	333,392	818,392
2033	505,000	315,284	820,284
2034	530,000	296,366	826,366
2035	550,000	276,524	826,524
2036	575,000	257,349	832,349
2037	595,000	238,908	833,908
2038	615,000	219,695	834,695
2039	640,000	199,382	839,382
2040	660,000	177,985	837,985
2041	685,000	155,681	840,681
2042	715,000	132,228	847,228
2043	740,000	107,511	847,511
2044	770,000	81,288	851,288
2045	800,000	55,438	855,438
2046	825,000	31,125	856,125
2047	850,000	9,562	859,562
	<u>\$ 14,355,000</u>	<u>\$ 7,067,067</u>	<u>\$ 21,422,067</u>

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 9 – Property Taxes

On November 8, 2015, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2021 fiscal year was financed through the 2020 tax levy, pursuant to which the District levied property taxes of \$0.75 per \$100 of assessed value, of which \$0.10 was allocated to maintenance and operations and \$0.65 was allocated to debt service. The resulting tax levy was \$903,052 on the adjusted taxable value of \$120,406,970.

Property taxes receivable, at July 31, 2021, consisted of the following:

Current year taxes receivable	\$ 8,150
Penalty and interest receivable	1,467
Property taxes receivable	<u>\$ 9,617</u>

Note 10 – Transfers to Other Governments

In accordance with an agreement between the District and the City of La Marque (the "City"), the District transfers its water and sewer facilities and storm water collection systems to the City (see Note 11). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended July 31, 2021, the District reported transfers to other governments in the amount of \$1,249,064 for projects completed and transferred to the City.

Note 11 – Utility Agreement with the City of La Marque

In August 2005, as amended in October 2007, the District approved a Utility Services Contract (the "Contract") with the City of La Marque (the "City"), originally entered into between the City and the District's developer in 2004. In exchange for the City's provision of water and sewer service to customers within the boundaries of the District, the District will construct water distribution, wastewater collection and drainage facilities within the District and, as construction is completed, will convey these facilities (excluding storm water detention facilities) to the City. The term of the Contract is for 25 years, with automatic annual renewal thereafter, unless terminated.

Galveston County Municipal Utility District No. 32
Notes to Financial Statements
July 31, 2021

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Required Supplementary Information

Galveston County Municipal Utility District No. 32
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended July 31, 2021

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 146,745	\$ 106,143	\$ 122,074	\$ 15,931
Investment earnings			76	76
Total Revenues	146,745	106,143	122,150	16,007
Expenditures				
Operating and administrative				
Professional fees	77,000	77,000	90,576	(13,576)
Contracted services	11,000	11,000	11,100	(100)
Repairs and maintenance	17,500	17,500	12,173	5,327
Administrative	18,325	18,325	17,382	943
Other	450	5,000	1,811	3,189
Total Expenditures	124,275	128,825	133,042	(4,217)
Revenues Over/(Under) Expenditures	22,470	(22,682)	(10,892)	11,790
Fund Balance				
Beginning of the year	109,056	109,056	109,056	
End of the year	\$ 131,526	\$ 86,374	\$ 98,164	\$ 11,790

Galveston County Municipal Utility District No. 32
Notes to Required Supplementary Information
July 31, 2021

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.

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Texas Supplementary Information

Galveston County Municipal Utility District No. 32
TSI-1. Services and Rates
July 31, 2021

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

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

2. Retail Service Providers

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

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

District employs winter averaging for wastewater usage? ☐ Yes ☒ No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-1. Services and Rates
July 31, 2021

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons pumped into system:	<u>N/A</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>N/A</u>	<u>N/A</u>

4. Standby Fees (authorized only under TWC Section 49.231):

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

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District:

Is the District located entirely within one county? Yes ☒ No ☐

County(ies) in which the District is located: Galveston County

Is the District located within a city? Entirely ☒ Partly ☐ Not at all ☐

City(ies) in which the District is located: City of La Marque

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

Entirely ☐ Partly ☐ Not at all ☒

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes ☐ No ☒

If Yes, by whom? _____

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-2. General Fund Expenditures
For the Year Ended July 31, 2021

Professional fees		
Legal	\$	60,755
Audit		11,000
Engineering		18,821
		<u>90,576</u>
Contracted services		
Bookkeeping		<u>11,100</u>
Repairs and maintenance		<u>12,173</u>
Administrative		
Directors fees		7,500
Printing and office supplies		1,993
Insurance		3,036
Other		4,853
		<u>17,382</u>
Other		<u>1,811</u>
Total expenditures	\$	<u><u>133,042</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-4. Taxes Levied and Receivable
July 31, 2021

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 2,240	\$ 11,761	\$ 14,001	
2020 Original Tax Levy	108,368	704,392	812,760	
Adjustments	12,039	78,253	90,292	
Adjusted Tax Levy	120,407	782,645	903,052	
Total to be accounted for	122,647	794,406	917,053	
Tax collections:				
Current year	119,320	775,582	894,902	
Prior years	2,240	11,761	14,001	
Total Collections	121,560	787,343	908,903	
Taxes Receivable, End of Year	\$ 1,087	\$ 7,063	\$ 8,150	
Taxes Receivable, By Year				
2020	\$ 1,087	\$ 7,063	\$ 8,150	
	2020	2019	2018	2017
Property Valuations:				
Land	\$ 21,324,230	\$ 20,054,370	\$ 16,954,630	\$ 13,401,860
Improvements	104,866,069	80,495,000	58,124,087	43,870,287
Personal Property	492,570	430,100	347,040	259,930
Exemptions	(6,275,899)	(5,018,143)	(2,575,009)	(1,474,963)
Total Property Valuations	\$ 120,406,970	\$ 95,961,327	\$ 72,850,748	\$ 56,057,114
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.10	\$ 0.12	\$ 0.09	\$ 0.36
Debt service tax rates	0.65	0.63	0.66	0.39
Total Tax Rates per \$100 Valuation	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75
Adjusted Tax Levy:	\$ 903,052	\$ 719,710	\$ 546,381	\$ 420,428
Percentage of Taxes Collected to Taxes Levied **	99.10%	100.00%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 8, 2005

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

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2010--by Years
July 31, 2021

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2022	\$ 80,000	\$ 90,474	\$ 170,474
2023	85,000	86,575	171,575
2024	95,000	82,300	177,300
2025	100,000	77,544	177,544
2026	105,000	72,419	177,419
2027	110,000	67,044	177,044
2028	120,000	61,144	181,144
2029	125,000	54,712	179,712
2030	135,000	47,887	182,887
2031	145,000	40,447	185,447
2032	155,000	32,384	187,384
2033	165,000	23,784	188,784
2034	175,000	14,646	189,646
2035	185,000	4,972	189,972
	<u>\$ 1,780,000</u>	<u>\$ 756,332</u>	<u>\$ 2,536,332</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
July 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ 25,000	\$ 27,864	\$ 52,864
2023	25,000	27,339	52,339
2024	25,000	26,776	51,776
2025	30,000	26,129	56,129
2026	30,000	25,379	55,379
2027	30,000	24,576	54,576
2028	35,000	23,656	58,656
2029	35,000	22,641	57,641
2030	35,000	21,600	56,600
2031	40,000	20,456	60,456
2032	40,000	19,226	59,226
2033	45,000	17,847	62,847
2034	45,000	16,328	61,328
2035	45,000	14,809	59,809
2036	50,000	13,206	63,206
2037	50,000	11,519	61,519
2038	55,000	9,713	64,713
2039	60,000	7,700	67,700
2040	60,000	5,600	65,600
2041	65,000	3,413	68,413
2042	65,000	1,138	66,138
	<u>\$ 890,000</u>	<u>\$ 366,915</u>	<u>\$ 1,256,915</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
July 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ 20,000	\$ 72,183	\$ 92,183
2023	20,000	71,583	91,583
2024	15,000	71,058	86,058
2025	15,000	70,608	85,608
2026	15,000	70,158	85,158
2027	15,000	69,708	84,708
2028	10,000	69,333	79,333
2029	10,000	69,025	79,025
2030	10,000	68,702	78,702
2031	5,000	68,450	73,450
2032		68,362	68,362
2033		68,362	68,362
2034		68,362	68,362
2035		68,362	68,362
2036	190,000	64,942	254,942
2037	200,000	57,872	257,872
2038	205,000	50,481	255,481
2039	210,000	42,750	252,750
2040	225,000	34,485	259,485
2041	230,000	25,840	255,840
2042	245,000	16,815	261,815
2043	320,000	6,080	326,080
	<u>\$ 1,960,000</u>	<u>\$ 1,273,521</u>	<u>\$ 3,233,521</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2018--by Years
July 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ 40,000	\$ 74,656	\$ 114,656
2023	45,000	73,529	118,529
2024	45,000	72,280	117,280
2025	45,000	70,964	115,964
2026	50,000	69,514	119,514
2027	55,000	67,873	122,873
2028	55,000	66,113	121,113
2029	60,000	64,206	124,206
2030	60,000	61,994	121,994
2031	60,000	59,594	119,594
2032	70,000	56,994	126,994
2033	65,000	54,416	119,416
2034	70,000	51,969	121,969
2035	75,000	49,294	124,294
2036	80,000	46,388	126,388
2037	85,000	43,294	128,294
2038	90,000	40,013	130,013
2039	95,000	36,544	131,544
2040	95,000	32,981	127,981
2041	105,000	29,100	134,100
2042	105,000	24,900	129,900
2043	115,000	20,500	135,500
2044	455,000	9,100	464,100
	<u>\$ 2,020,000</u>	<u>\$ 1,176,216</u>	<u>\$ 3,196,216</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2019--by Years
July 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ 55,000	\$ 69,650	\$ 124,650
2023	55,000	68,550	123,550
2024	60,000	67,400	127,400
2025	60,000	66,125	126,125
2026	60,000	64,775	124,775
2027	60,000	63,350	123,350
2028	60,000	61,775	121,775
2029	65,000	59,975	124,975
2030	70,000	57,950	127,950
2031	70,000	55,850	125,850
2032	70,000	53,750	123,750
2033	80,000	51,500	131,500
2034	80,000	49,100	129,100
2035	80,000	46,700	126,700
2036	85,000	44,172	129,172
2037	85,000	41,516	126,516
2038	90,000	38,781	128,781
2039	90,000	35,913	125,913
2040	95,000	32,906	127,906
2041	90,000	29,900	119,900
2042	95,000	26,894	121,894
2043	100,000	23,725	123,725
2044	100,000	20,475	120,475
2045	580,000	9,425	589,425
	<u>\$ 2,335,000</u>	<u>\$ 1,140,157</u>	<u>\$ 3,475,157</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2020--by Years
July 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ 10,000	\$ 71,018	\$ 81,018
2023	40,000	70,018	110,018
2024	40,000	68,418	108,418
2025	40,000	66,819	106,819
2026	45,000	65,119	110,119
2027	50,000	63,219	113,219
2028	50,000	61,219	111,219
2029	50,000	59,219	109,219
2030	55,000	57,119	112,119
2031	60,000	54,819	114,819
2032	60,000	52,869	112,869
2033	60,000	51,369	111,369
2034	65,000	49,806	114,806
2035	65,000	48,181	113,181
2036	75,000	46,384	121,384
2037	80,000	44,350	124,350
2038	80,000	42,250	122,250
2039	85,000	40,031	125,031
2040	85,000	37,694	122,694
2041	90,000	35,288	125,288
2042	95,000	32,625	127,625
2043	100,000	29,700	129,700
2044	105,000	26,625	131,625
2045	110,000	23,400	133,400
2046	725,000	10,875	735,875
	<u>\$ 2,320,000</u>	<u>\$ 1,208,434</u>	<u>\$ 3,528,434</u>

See accompanying auditors' report.

Galveston County Municipal Utility District No. 32
TSI-5. Long-Term Debt Service Requirements
Series 2021--by Years
July 31, 2021

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2022	\$ -	\$ 49,063	\$ 49,063
2023	70,000	74,056	144,056
2024	75,000	70,431	145,431
2025	75,000	66,681	141,681
2026	75,000	62,931	137,931
2027	75,000	59,182	134,182
2028	80,000	56,506	136,506
2029	85,000	54,856	139,856
2030	80,000	53,206	133,206
2031	85,000	51,557	136,557
2032	90,000	49,807	139,807
2033	90,000	48,006	138,006
2034	95,000	46,155	141,155
2035	100,000	44,206	144,206
2036	95,000	42,257	137,257
2037	95,000	40,357	135,357
2038	95,000	38,457	133,457
2039	100,000	36,444	136,444
2040	100,000	34,319	134,319
2041	105,000	32,140	137,140
2042	110,000	29,856	139,856
2043	105,000	27,506	132,506
2044	110,000	25,088	135,088
2045	110,000	22,613	132,613
2046	100,000	20,250	120,250
2047	850,000	9,562	859,562
	<u>\$ 3,050,000</u>	<u>\$ 1,145,492</u>	<u>\$ 4,195,492</u>

See accompanying auditors' report.

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Galveston County Municipal Utility District No. 32
TSI-6. Change in Long-Term Bonded Debt
July 31, 2021

	Bond Issue			
	Series 2010	Series 2016	Series 2017	Series 2018
Interest rate	4.00% - 5.375%	2.00% - 3.50%	3.00% - 3.80%	2.50% - 4.00%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/11 - 9/1/34	9/1/17 - 9/1/41	9/1/19 - 9/1/42	9/1/20 - 9/1/43
Beginning bonds outstanding	\$ 1,855,000	\$ 915,000	\$ 1,980,000	\$ 2,060,000
Bonds issued				
Bonds retired	(75,000)	(25,000)	(20,000)	(40,000)
Ending bonds outstanding	<u>\$ 1,780,000</u>	<u>\$ 890,000</u>	<u>\$ 1,960,000</u>	<u>\$ 2,020,000</u>
Interest paid during fiscal year	<u>\$ 94,079</u>	<u>\$ 28,364</u>	<u>\$ 72,783</u>	<u>\$ 75,676</u>
Paying agent's name and city				
Series 2010	Wells Fargo Bank, N.A., Houston, Texas			
All other Series	The Bank of New York Mellon Trust Company, N.A. Dallas, TX			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 36,950,000	\$ 1,730,000	\$ 24,000,000	
Amount Issued	(15,155,000)			
Remaining To Be Issued	<u>\$ 21,795,000</u>	<u>\$ 1,730,000</u>	<u>\$ 24,000,000</u>	

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash balances as of July 31, 2021: \$ 1,021,426

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 823,926

See accompanying auditors' report.

Bond Issue			Totals
Series 2019	Series 2020	Series 2021	
2.00% - 3.25%	2.50% - 4.00%	2.00% - 5.00%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
9/1/20 - 9/1/44	9/1/21 - 9/1/45	9/1/22 - 9/1/46	
\$ 2,390,000	\$ 2,320,000	\$ -	\$ 11,520,000
		3,050,000	3,050,000
(55,000)			(215,000)
<u>\$ 2,335,000</u>	<u>\$ 2,320,000</u>	<u>\$ 3,050,000</u>	<u>\$ 14,355,000</u>
<u>\$ 70,750</u>	<u>\$ 65,284</u>	<u>\$ -</u>	<u>\$ 406,936</u>

Galveston County Municipal Utility District No. 32

TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund

For the Last Five Fiscal Years

	Amounts				
	2021	2020	2019	2018	2017
Revenues					
Property taxes	\$ 122,074	\$ 113,378	\$ 66,681	\$ 200,499	\$ 57,901
Investment earnings	76	173	203	122	21
Total Revenues	122,150	113,551	66,884	200,621	57,922
Expenditures					
Operating and administrative					
Professional fees	90,576	72,848	69,530	64,134	86,713
Contracted services	11,100	11,025	10,838	10,988	9,900
Repairs and maintenance	12,173	2,070			31,835
Administrative	17,382	14,298	19,459	13,397	15,173
Other	1,811	2,900	316		1,935
Intergovernmental					
Drainage channel improvements				13,868	
Total Expenditures	133,042	103,141	100,143	102,387	145,556
Revenues Over/(Under) Expenditures	\$ (10,892)	\$ 10,410	\$ (33,259)	\$ 98,234	\$ (87,634)

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2021	2020	2019	2018	2017
100%	100%	100%	100%	100%
*	*	*	*	*
100%	100%	100%	100%	100%
74%	64%	104%	32%	150%
9%	10%	16%	5%	17%
10%	2%			55%
14%	13%	29%	7%	26%
1%	3%	*		3%
			7%	
108%	92%	149%	51%	251%
(8%)	8%	(49%)	49%	(151%)

Galveston County Municipal Utility District No. 32

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

For the Last Five Fiscal Years

	Amounts				
	2021	2020	2019	2018	2017
Revenues					
Property taxes	\$ 786,826	\$ 596,028	\$ 484,106	\$ 219,430	\$ 222,265
Penalties and interest	7,547	5,894	6,239	3,355	1,247
Investment earnings	569	1,337	1,099	667	407
Total Revenues	794,942	603,259	491,444	223,452	223,919
Expenditures					
Tax collection services	26,073	16,365	16,041	8,600	8,225
Debt service					
Principal	215,000	115,000	90,000	85,000	60,000
Interest and fees	407,571	339,198	254,822	178,880	118,117
Total Expenditures	648,644	470,563	360,863	272,480	186,342
Revenues Over/(Under) Expenditures	\$ 146,298	\$ 132,696	\$ 130,581	\$ (49,028)	\$ 37,577

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2021	2020	2019	2018	2017
99%	99%	99%	98%	99%
1%	1%	1%	2%	1%
*	*	*	*	*
100%	100%	100%	100%	100%
3%	3%	3%	4%	4%
27%	19%	18%	38%	27%
51%	56%	52%	80%	53%
81%	78%	73%	122%	84%
19%	22%	27%	(22%)	16%

Galveston County Municipal Utility District No. 32
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended July 31, 2021

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): June 23, 2021
Limit on Fees of Office a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Jeff Braun	05/20 - 05/24	\$ -	\$ 1,573	President
William Thompson	05/20 - 05/24	2,700	1,390	Vice President
Roy Hill	05/18 - 05/22	1,500		Secretary
Dottie J. Hayter	05/18 - 05/22	1,800		Former Director
Mary Ann Bocox	05/20 - 06/21	1,500		Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	08/05	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 57,951		
<i>Bond counsel</i>		103,310		
Myrtle Cruz, Inc.	08/05	17,091		Bookkeeper
Assessments of the Southwest, Inc.	08/05	9,555		Tax Collector
Galveston Central Appraisal District	Legislation	5,539		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	03/06	4,325		Delinquent Tax Attorney
IDS Engineering Group	08/05	66,627		Engineer
McGrath & Co., PLLC	07/11	21,000		Auditor
RBC Capital Markets	08/05	56,000		Financial Advisor

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

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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