

OFFICIAL STATEMENT DATED MARCH 8, 2023

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: "A1"

S&P: "AA+" (stable outlook)

See "OTHER INFORMATION—Ratings" herein

In the opinion of Bond Counsel, under existing law, interest on the Series 2023A Bonds (as defined herein) (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations. Interest on the Series 2023B Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAX MATTERS – TAXABLE BONDS" herein.

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

\$16,425,000

Contract Revenue Bonds

**(Thomas S. Mackey Water Treatment Plant Expansion)
Series 2023A (Tax-Exempt)**

\$4,700,000

Contract Revenue Bonds

**(Thomas S. Mackey Water Treatment Plant Expansion)
Series 2023B (Taxable)**

Dated: March 15, 2023

**Due August 15, as shown on pages ii and iii.
CUSIP Prefix: 40223W**

The Gulf Coast Water Authority (the "Authority" or "GCWA") is issuing its Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023A (Tax-Exempt) (the "Series 2023A Bonds") and its Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023B (Taxable Bonds) (the "Series 2023B Bonds" and together with the Series 2023A Bonds, the "Series 2023 Bonds" or "Bonds") to fund (i) the construction, acquisition, equipment and improvement of facilities and capital charges associated with the acquisition of raw water required in connection with a 7.9 million gallon per day ("MGD") expansion the capacity of the Mackey Plant, (ii) a debt service reserve fund (the "Reserve Fund") for each series of Bonds, and (iii) the costs of issuance of the Series 2023 Bonds. See "SOURCES AND USES OF FUNDS."

The Series 2023 Bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by (i) a first lien on and pledge of the Pledged Revenues (as defined herein), which consist primarily of certain Participant Financing Charges Payments (as defined herein) to be made by certain Participants (as described herein) and (ii) the Reserve Fund for each series of Bonds required by the Bond Resolution adopted by the Board of Directors (the "Board") of the Authority on January 19, 2023 (the "Bond Resolution"). In the Bond Resolution, the Board delegated pricing of the Series 2023 Bonds and certain other matters to an authorized official of the Authority who approved and execute a pricing certificate for each series of the Bonds on March 8, 2023 that completed the sale of the Series 2023 Bonds. The Series 2023 Bonds, together with the interest thereon, are payable solely from such Participant Financing Charges Payments and do not constitute an indebtedness or general obligation of the Authority. **The Series 2023 Bonds, together with the interest thereon are payable solely from the Pledged Revenues and the Reserve Fund and do not constitute an indebtedness or general obligation of the Authority. The Series 2023 Bonds are not a charge against any revenues, receipts or assets of the Authority other than the Pledged Revenues and the Reserve Fund and no bondholder shall have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation. The Authority has no taxing power, and the Series 2023 Bonds are not secured by the pledge of ad valorem taxes from any source.** See "THE SERIES 2023 BONDS – Security for the Series 2023 Bonds," "INVESTMENT CONSIDERATIONS," and "THE RESOLUTION."

Interest on the Series 2023 Bonds will accrue from the date of initial delivery of the Series 2023 Bonds to the underwriters identified below (the "Underwriters") and will be payable on August 15, 2023 and on each February 15 and August 15 thereafter until stated maturity or prior redemption. Principal of the Series 2023 Bonds will be paid at maturity or redemption only upon presentation and surrender of the Series 2023 Bonds at the principal corporate trust office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar") (see "THE SERIES 2023 BONDS – Paying Agent/Registrar").

The Series 2023 Bonds will be issued as fully registered securities, when issued, registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2023 Bonds may be acquired in denominations of \$5,000 and integral multiples of \$5,000 in excess thereof. No physical delivery of the Series 2023 Bonds will be made to the owners thereof. Principal of and interest on the Series 2023 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2023 Bonds (see "THE SERIES 2023 BONDS – Book-Entry-Only System").

The Series 2023 Bonds are subject to optional redemption prior to stated maturity as described herein. See "THE SERIES 2023 BONDS – Redemption – Optional Redemption." The Term Bonds (defined herein) are subject to mandatory sinking fund redemption as described herein. See "THE SERIES 2023 BONDS – Redemption – Mandatory Sinking Fund Redemption."

See Maturity Schedules on pages ii and iii

The Series 2023 Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and by Bracewell LLP, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the Authority by Bracewell, LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas. The Series 2023 Bonds are expected to be available for delivery through the facilities of DTC on or about April 5, 2023 (the "Date of Delivery").

SAMCO CAPITAL MARKETS, INC.

BOK FINANCIAL SECURITIES, INC.

MATURITY SCHEDULES
\$16,425,000
CONTRACT REVENUE BONDS
(THOMAS S. MACKEY WATER TREATMENT PLANT EXPANSION)
SERIES 2023A (TAX-EXEMPT)

\$8,405,000 Serial Bonds

Year <u>(August 15)⁽¹⁾</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial <u>Yield⁽²⁾</u>	CUSIP ⁽³⁾ <u>(Prefix: 40223W)</u>
2023	\$100,000	5.000%	3.370%	DA1
2024	275,000	5.000	3.310	DB9
2025	290,000	5.000	3.350	DC7
2026	305,000	5.000	3.270	DD5
2027	320,000	5.000	3.230	DE3
2028	335,000	5.000	3.220	DF0
2029	350,000	5.000	3.240	DG8
2030	370,000	5.000	3.230	DH6
2031	390,000	5.000	3.270	DJ2
2032	405,000	5.000	3.300	DK9
2033	430,000	5.000	3.320	DL7
2034	450,000	5.000	3.420	DM5
2035	470,000	5.000	3.610	DN3
2036	495,000	4.000	4.000	DP8
2037	515,000	4.000	4.130	DQ6
2038	535,000	4.000	4.210	DR4
2039	555,000	4.125	4.290	DS2
2040	580,000	4.125	4.350	DT0
2041	605,000	4.250	4.400	DU7
2042	630,000	4.250	4.480	DV5

(Interest accrues from the Date of Delivery)

\$8,020,000 Term Bonds

\$3,580,000 4.375% Term Bonds Due August 15, 2047, Priced to Yield 4.560%, CUSIP 40223W EA0 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
\$4,440,000 4.500% Term Bonds Due August 15, 2052, Priced to Yield 4.620%, CUSIP 40223W EF9 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

(Interest accrues from the Date of Delivery)

- (1) The Series 2023A Bonds maturing on and after August 15, 2033, are subject to redemption prior to stated maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2032, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE SERIES 2023 BONDS – Optional Redemption.”
- (2) The initial yields have been established by and are the sole responsibility of the Underwriters and may subsequently be changed. The initial yields on premium bonds are calculated to the earlier of maturity or the first optional redemption date. The initial yields on discount bonds or par bonds are calculated to maturity.
- (3) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Series 2023A Bonds. This data is not intended to create a database and does not in any way serve as a substitute for the CUSIP Global Services database. Neither the Authority, the Financial Advisor (as defined herein), nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (4) The Term Bonds are subject to mandatory sinking fund redemption as described herein. See “THE SERIES 2023 BONDS – Redemption – Mandatory Sinking Fund Redemption.”

\$4,700,000
Contract Revenue Bonds
(Thomas S. Mackey Water Treatment Plant Expansion)
Series 2023B (Taxable)

\$820,000 5.250% Term Bonds Due August 15, 2032, Priced to Yield 5.290%, CUSIP 40223W ER3⁽²⁾⁽³⁾⁽⁴⁾
\$930,000 5.250% Term Bonds Due August 15, 2039, Priced to Yield 5.500%, CUSIP 40223W EY8⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
\$1,335,000 5.500% Term Bonds Due August 15, 2046, Priced to Yield 5.630%, CUSIP 40223W FF8⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
\$1,615,000 5.500% Term Bonds Due August 15, 2052, Priced to Yield 5.750%, CUSIP 40223W FM3⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

(Interest accrues from the Date of Delivery)

- (1) The Series 2023B Bonds maturing on and after August 15, 2039, are subject to redemption prior to stated maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2032 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE SERIES 2023 BONDS – Redemption - Optional Redemption.”
- (2) The initial yields have been established by and are the sole responsibility of the Underwriters and may subsequently be changed.
- (3) CUSIP numbers have been assigned to this issue by the CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Series 2023B Bonds. This data is not intended to create a database and does not in any way serve as a substitute for the CUSIP Global Services database. Neither the Authority, the Financial Advisor (as defined herein), nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (4) The Term Bonds are subject to mandatory sinking fund redemption as described herein. See “THE SERIES 2023 BONDS – Redemption – Mandatory Sinking Fund Redemption.”

GULF COAST WATER AUTHORITY OFFICIALS

Board of Directors

<u>Director</u>	<u>Title</u>	<u>Position</u>	<u>Date Current Term Expires</u>
Brad Matlock, PE	President	Galveston County At-Large Pos. 2	8/31/2024
Cliff Mock	Vice President	Brazoria County Agricultural Pos. 1	8/31/2024
Kevin D. Moore	Secretary	Galveston County Industrial Pos. 2	8/31/2024
Bennie Jones, Jr.	Treasurer	Brazoria County Industrial Pos. 1	8/31/2024
Trisha Frederick, PE	Assistant Secretary	Fort Bend County At-Large Pos. 1	8/31/2024
Jimmy Laurito	Director	Galveston County Industrial Pos. 1	8/31/2023
Allen Bogard	Director	Fort Bend County Municipal Pos. 1	8/31/2023
Jody Hooks	Director	Galveston County Municipal Pos. 1	8/31/2023
Duane Cole	Director	Galveston County At-Large Pos. 1	8/31/2023
John McDonald	Director	Brazoria County Municipal Pos. 1	8/31/2023

Administrative Staff

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

Consultants and Advisors

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

For additional information regarding the Authority, please contact:

Brandon Wade, PE
 Gulf Coast Water Authority
 4243 Emmett F. Lowry Expressway
 Texas City, Texas 77591
 Phone (409) 935-2438

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the Authority, the City of League City, Texas (the "City"), the Galveston County Water and Improvement Control District No. 12 (the "GC WCID No. 12") and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City, or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY," "CONTINUING DISCLOSURE OF INFORMATION OF THE CITY OF LEAGUE CITY," and "CONTINUING DISCLOSURE OF INFORMATION OF GC WCID NO. 12 for a description of the Authority's, the City's and GC WCID No. 12's undertakings, respectively, to provide certain information on a continuing basis.

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

THE SERIES 2023 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE SERIES 2023 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2023 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The prices and other terms respecting the offering and sale of the Series 2023 Bonds may be changed from time to time by the Underwriters after the Series 2023 Bonds are released for sale, and the Series 2023 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2023 Bonds into investment accounts.

The agreements of the Authority, the City, the District and others related to the Series 2023 Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Series 2023 Bonds is to be construed as constituting an agreement with the purchasers of the Series 2023 Bonds.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

TABLE OF CONTENTS

<p>GULF COAST WATER AUTHORITY</p> <p>OFFICIALS iv</p> <p>Board of Directors iv</p> <p>Administrative Staff iv</p> <p>Consultants and Advisors iv</p> <p>USE OF INFORMATION IN OFFICIAL STATEMENTv</p> <p>INTRODUCTION1</p> <p>SOURCES AND USES OF FUNDS.....1</p> <p>THE SERIES 2023 BONDS.....2</p> <p>General2</p> <p>Purpose2</p> <p>Security for the Series 2023 Bonds3</p> <p>Redemption4</p> <p>Book-Entry-Only System8</p> <p>Paying Agent/Registrar10</p> <p>Registration, Transfer and Exchange.....10</p> <p>Record Date For Interest Payment.....11</p> <p>Additional Bonds.....11</p> <p>DESCRIPTION OF THE AUTHORITY11</p> <p>MACKEY PLANT EXPANSION.....13</p> <p>Table 1 – Mackey Plant Expansion</p> <p>Participants13</p> <p>INVESTMENT CONSIDERATIONS13</p> <p>Series 2023 Bonds Not Payable from Taxes13</p> <p>Infectious Disease Outlook (COVID-19)14</p> <p>Severe Weather.....14</p> <p>Exposure to Oil and Gas Industry.....14</p> <p>Changes in Tax Legislation15</p> <p>SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT15</p> <p>Article I - Definitions15</p> <p>Article II - Construction and Financing of the Project16</p> <p>Article III - Ownership and Operation.....18</p> <p>Article IV - Payments by Participant to the Authority19</p> <p>Article V - Certain Termination Rights21</p> <p>Article VI - Defaults and Remedies.....22</p> <p>Article VII - Ownership of Plans, Reports, Specifications, Etc.....23</p> <p>Article VIII - Continuing Disclosure Agreement24</p> <p>Article IX - Miscellaneous24</p> <p>THE RESOLUTION24</p> <p>Selected Definitions.....24</p> <p>Security and Source of Payment for All Bonds28</p> <p>Funds and Accounts28</p> <p>Flow of Funds.....29</p> <p>Interest and Sinking Fund.....29</p> <p>Reserve Fund30</p> <p>Discharge.....32</p> <p>Issuance of Additional Bonds.....32</p>	<p>General Covenants.....33</p> <p>Modifications and Amendments.....33</p> <p>Defaults and Remedies34</p> <p>DEBT SERVICE REQUIREMENTS36</p> <p>Table 2 – Debt Service Requirements for Mackey Plant Expansion Bonds36</p> <p>Table 3 - Total Debt Service Requirements of the Authority36</p> <p>ALLOCATION OF DEBT SERVICE AND OPERATING CHARGES.....38</p> <p>Allocation of Raw Water Charges and Mainland Operating Charges.....39</p> <p>Table 5 - Raw Water Charges and Mainland Operating Charges.....39</p> <p>INVESTMENTS39</p> <p>Legal Investments.....39</p> <p>Investment Policies.....41</p> <p>Additional Provisions41</p> <p>Table 6 - Current Investments42</p> <p>TAX MATTERS42</p> <p>Tax Exemption42</p> <p>Collateral Tax Consequences43</p> <p>Tax Accounting Treatment of Original Issue Premium43</p> <p>Tax Accounting Treatment of Original Issue Discount44</p> <p>Tax Legislative Changes45</p> <p>OTHER INFORMATION49</p> <p>Ratings.....49</p> <p>Litigation49</p> <p>Registration and Qualification of Bonds for Sale.....50</p> <p>Legal Investments and Eligibility to Secure Public Funds on Texas50</p> <p>Legal Matters.....50</p> <p>Financial Advisor51</p> <p>Authenticity of Financial Data and Other Information.....51</p> <p>Underwriting51</p> <p>Authorization of Official Statement52</p> <p>Forward-Looking Statements52</p> <p>CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY52</p> <p>Annual Reports.....52</p> <p>Event Notices53</p> <p>Limitations and Amendments.....54</p> <p>Compliance With Prior Undertakings54</p> <p>CONTINUING DISCLOSURE OF INFORMATION OF THE CITY OF LEAGUE CITY.....55</p> <p>Annual Reports.....55</p> <p>Event Notices55</p> <p>Limitations and Amendments.....56</p>
---	---

Compliance With Prior Undertakings	57	Event Notices	58
CONTINUING DISCLOSURE OF		Limitations and Amendments.....	59
INFORMATION OF GC WCID No. 12	58	BONDOWNERS' REMEDIES.....	60
Annual Reports.....	58		

APPENDIX A – GENERAL INFORMATION REGARDING THE CITY OF LEAGUE CITY	
APPENDIX B – GENERAL INFORMATION REGARDING GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 12	
APPENDIX C –EXCERPTS FROM THE GULF COAST WATER AUTHORITY ANNUAL FINANCIAL REPORT	
APPENDIX D – FORMS OF OPINIONS OF BOND COUNSEL	

PRELIMINARY OFFICIAL STATEMENT

relating to

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

\$16,425,000
Contract Revenue Bonds
(Thomas S. Mackey Water Treatment Plant
Expansion)
Series 2023A (Tax-Exempt)

\$4,700,000
Contract Revenue Bonds
(Thomas S. Mackey Water Treatment Plant
Expansion)
Series 2023B (Taxable)

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the Gulf Coast Water Authority (the “Authority” or “GCWA”) of its Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023A (Tax-Exempt) (the “Series 2023A Bonds”) and its Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023B (Taxable Bonds) (the “Series 2023B Bonds” and together with the Series 2023A Bonds, the “Series 2023 Bonds” or “Bonds”).

The Series 2023 Bonds are issued pursuant to the Constitution and the laws of the State of Texas, including, particularly Chapter 712, Acts of the 59th Legislature of Texas, Regular Session, 1965, as amended, compiled as Article 8280-339 Vernon’s Texas Civil Statutes, as amended, Section 791.026 Texas Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and additionally pursuant to a bond resolution adopted by the Board of Directors of the Authority (the “Board”) on January 19, 2023 (“Bond Resolution”). In the Bond Resolution the Board delegated pricing of the Series 2023 Bonds and certain other matters to an authorized official of the Authority who approved and executed a pricing certificate for each series of the Bonds on March 8, 2023, that completed the sale of the Series 2023 Bonds (the “Pricing Certificates,” together with the Bond Resolution, the “Resolution”). Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See “THE RESOLUTION.”

There follows in this Official Statement descriptions of the plan of financing, the Series 2023 Bonds, and certain information about the Authority and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2023A Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Series 2023A Bonds	\$16,425,000.00
Net Reoffering Premium	174,678.20
Total	<u>\$16,599,678.20</u>
 <u>Uses of Funds</u>	
Project Fund	\$15,207,500.00
Deposit to Reserve Fund	1,015,031.26
Costs of Issuance ⁽¹⁾	255,194.40
Underwriters’ Discount	121,952.54
Total	<u>\$16,599,678.20</u>

(1) Includes the fees of Bond Counsel, Disclosure Counsel the Financial Advisor, and the Paying Agent/Registrar (each as defined herein), the rating agencies, a rounding amount and other costs related to the issuance of the Series 2023A Bonds.

The proceeds from the sale of the Series 2023B Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Series 2023B Bonds	\$4,700,000.00
Original Issue Discount	(106,968.65)
Total	<u>\$4,593,031.35</u>
<u>Uses of Funds</u>	
Project Fund	\$4,152,500.00
Deposit to Reserve Fund	326,812.50
Costs of Issuance ⁽¹⁾	75,825.48
Underwriters' Discount	37,893.37
Total	<u>\$4,593,031.35</u>

- (1) Includes the fees of Bond Counsel, the Financial Advisor, and the Paying Agent/Registrar (each as defined herein), the rating agencies, a rounding amount and other costs related to the issuance of the Series 2023B Bonds.

THE SERIES 2023 BONDS

General

The Series 2023 Bonds are dated March 15, 2023 (the "Dated Date"), are issued as fully registered bonds and mature on August 15 in each of the years and in the amounts set forth on pages ii and iii hereof. The Series 2023 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2023 Bonds will accrue from the date of initial delivery of the Series 2023 Bonds to the underwriters identified on the cover page (the "Underwriters") and is payable on August 15, 2023, and on each February 15 and August 15 thereafter (each an "Interest Payment Date") until maturity or prior redemption. Interest on the Series 2023 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The definitive Series 2023 Bonds will be initially registered and delivered only to Cede & Co., as nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2023 Bonds may be acquired in denominations of \$5,000 and integral multiples of \$5,000 in excess thereof. No physical delivery of the Series 2023 Bonds will be made to the owners thereof. Principal of and interest on the Series 2023 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2023 Bonds. See "- Book-Entry-Only System" below.

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar"). See "- Paying Agent/Registrar"). The Authority has reserved the right to issue additional bonds from time to time, and in one or more series or issues, and to enter into one or more credit agreements secured on parity with the Series 2023 Bonds (collectively, the "Additional Bonds" and together with the Series 2023 Bonds, the "Bonds"), in accordance with law, in any amounts, for any lawful purpose, including the refunding of the Series 2023 Bonds, Additional Bonds, or other obligations. Such Additional Bonds, if and when authorized, issued, and delivered in accordance with the Resolution, may be payable from and secured by a lien on and pledge of the Pledged Revenues (as defined herein), equally and ratably on a parity in all respects with the Series 2023 Bonds. See "THE RESOLUTION".

Purpose

The Series 2023 Bonds are being issued to fund (i) the construction, acquisition, equipment and improvement of facilities and capital charges associated with the acquisition of raw water required in connection with a 7.9 million gallon per day ("MGD") expansion of the capacity of the Mackey Plant (the "Mackey Plant Expansion Project"), (ii) a debt service reserve fund (the "Reserve Fund") for each series of Bonds, and (iii) the costs of issuance of the Series 2023 Bonds. See "SELECTED PROVISIONS OF WATER FACILITIES FINANCING AGREEMENT – Construction and Financing of the Project" for a description of the obligations of the Authority in connection with the

Mackey Plant Expansion Project under the Water Facilities Financing Agreement (each as defined herein). The total cost of the Mackey Plant Expansion Project is currently projected to be approximately \$22,120,000. The following six customers of the Authority are participating in the Mackey Plant Expansion Project: the City of League City, the City of La Marque, the City of Hitchcock, Galveston County Water Control and Improvement District No. 12 (“GC WCID No. 12”), Galveston County Water Control and Improvement District No. 8 (“GC WCID No. 8”), and Galveston County Fresh Water Supply District No. 6 (“GC FWSD No. 6”). These customers are collectively referred to herein as the “Mackey Plant Expansion Customers.”

A portion of the costs of the Mackey Plant Expansion Project will be funded with proceeds of the Series 2023 Bonds, and the remaining portion of the costs of the Mackey Plant Expansion Project will be funded through separate capital contributions. The following customers are financing their costs of the Mackey Plant Expansion Project through participation in the Series 2023 Bonds and are referred to herein as the “Participants”: the City of League City, the City of La Marque, the City of Hitchcock, GC WCID No. 12, and GC WCID No. 8. The capital contributions are being made by GC FWSD No. 6 and GC WCID No. 12 under their Customer Contracts (as defined herein) with the Authority. Such capital contributions are not pledged to the payment of the principal of or interest on the Series 2023 Bonds. GC FWSD No. 6 is not participating in the Series 2023 Bonds and is referred to herein as the “Nonparticipating Customer.” GC WCID No. 12 is paying a portion of its allocable share of the Mackey Plant Expansion Project through a capital contribution and financing the remaining portion through participation in the Series 2023 Bonds.

Security for the Series 2023 Bonds

The Series 2023 Bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by (i) a first lien on and pledge of the Pledged Revenues (as defined herein), which consist primarily of certain Participant Financing Charges Payments (as defined herein) to be made by the Participants under individual water facilities financing agreements, entered into in connection with the issuance of the Series 2023 Bonds between the Authority and each Participant, as may be amended and supplemented from time to time (collectively, the “Water Facilities Financing Agreement”) and (ii) the Reserve Fund required by the Bond Resolution. The Water Facilities Financing Agreement unconditionally obligates the Participants to pay the Participant Financing Charges (as defined herein) including the principal of and interest on the Series 2023 Bonds and any Additional Bonds. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT – Payments by Participant to the Authority” and “THE RESOLUTION” for additional information regarding the security and sources of payment for the Series 2023 Bonds.

The Series 2023 Bonds, together with the interest thereon, are payable solely from the Pledged Revenues and the Reserve Fund and do not constitute an indebtedness or general obligation of the Authority. The Series 2023 Bonds are not a charge against any revenues, receipts or assets of the Authority other than the Pledged Revenues and the Reserve Fund and no bondholder shall have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation. The Authority has no taxing power, and the Series 2023 Bonds are not secured by the pledge of ad valorem taxes from any source.

All payments required to be made by the Participants to the Authority under the Water Facilities Financing Agreement are payable from the revenues and income received by the Participants from the ownership and operation of their water and sewer systems. The Authority will never have the right to demand payment by the Participants of any obligations assumed by or imposed upon it under or by virtue of the Water Facilities Financing Agreement from any funds raised or to be raised by taxation, and the Participants’ obligations under the Water Facilities Financing Agreement will never be construed to be a debt of the Participants of such kind as to require them under the Constitution and laws of the State to levy and collect a tax to discharge such obligation. However, nothing in the Water Facilities Financing Agreement, prevents the Participants, in their sole discretion, from making any such payment from sources other than the revenues and income of the Participants’ water and sewer system. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT – Payments by Participant to the Authority – Source of Payments.”

In the Water Facilities Financing Agreement, the Participants covenant and agree to fix and maintain such rates and collect such charges for the facilities and services provided by their water and sewer systems as will be adequate to permit the Participants to make prompt payment of all expenses of operating and maintaining the Participants’ water and sewer systems, including payments under the Water Facilities Financing Agreement, and to make prompt payment

of the interest on and principal of the Series 2023 Bonds or other obligations of the Participants payable, in whole or in part, from the revenues of their water and sewer systems. In the Water Facilities Financing Agreement, the Participants pledge such revenues to payment of the amounts due under the Water Facilities Financing Agreement to the Authority. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT – Payments by the Participants to the Authority – Source of Payments.”

The terms of the Water Facilities Financing Agreement require the creation of a debt service reserve fund, and in the Resolution, the Authority established the Reserve Fund, which may be used by the Authority to prevent a default in the payment of principal of, premium, if any, and interest on and paying agent/registrars fees on the Series 2023 Bonds if there is insufficient money for such purposes in the interest and sinking fund established for such Series 2023 Bonds. The Series 2023 Bonds will be designated as Reserve Fund Participants (as defined herein) in the Reserve Fund Participant Account (as defined herein) of the Debt Service Reserve Fund. See “THE RESOLUTION – Selected Definitions” and “- Reserve Fund”. For the Series 2023 Bonds and any Parity Bonds (as defined herein) that are designated as Reserve Fund Participants, the Reserve Fund Requirement shall, as of any date of calculation (taking into account the issuance of the new Parity Bonds and the refunding of any refunded Parity Bonds), be an amount equal to the lesser of (i) ten percent of the stated principal amount (or Issue Price of the Reserve Fund Participants in the event that the amount of Original Issue Discount exceeds two percent multiplied by the Stated Redemption Price at Maturity of the Reserve Fund Participants) of the outstanding Reserve Fund Participants, (ii) the maximum annual principal and interest requirements of the outstanding Reserve Fund Participants, and (iii) 125 percent of average annual principal and interest requirements of the outstanding Reserve Fund Participants. Pursuant to the Water Facilities Financing Agreement, if any Participant defaults in the payment of Participant Financing Charges Payments associated with the maintenance of the required balance in the Reserve Fund, then such amounts are to be reallocated among non-defaulting customers so that the full amount of Participant Financing Charges Payments required to maintain the required balance in the Reserve Fund shall be paid. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT.”

Redemption

Optional Redemption

The Series 2023A Bonds maturing on and after August 15, 2033, are subject to redemption prior to stated maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2032, and any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

The Series 2023B Bonds maturing on and after August 15, 2039, are subject to redemption prior to stated maturity, at the option of the Authority, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2032, and any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Additionally, upon notice to the Authority, each Participant shall have the right to cause the Authority to utilize the optional redemption provisions described above to redeem or defease the Participant’s pro-rata portion of the Series 2023 Bonds, determined in accordance with the percentages set forth in the respective Water Facilities Financing Agreement, prior to their scheduled maturities, in whole or in part. In order to cause the Authority to pursue the optional redemption or defeasance of Series 2023 Bonds, the Participant must provide the Authority with written notice of such early redemption, including the maturities and amounts to be redeemed and evidence satisfactory to the Authority of the Participant’s obligation to pay the principal amount of, plus accrued interest, on such Series 2023 Bonds scheduled for early redemption or defeasance.

If less than all of the Series 2023 Bonds are to be redeemed, the Authority shall determine the principal amount and maturities to be redeemed (or mandatory sinking fund amounts within a maturity with respect to any Term Bonds, as defined below) and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Series 2023 Bonds or portions thereof within a maturity, to be redeemed.

Mandatory Sinking Fund Redemption

Series 2023A Bonds. The Series 2023A Bonds maturing on August 15 in the years 2047 and 2052 (the “Series 2023A Term Bonds”) are subject to mandatory sinking fund redemption prior to the scheduled maturity of the Bond, and will be redeemed by the Authority, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

\$3,580,000 Series 2023A Term Bond Maturing August 15, 2047

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2043	\$655,000
2044	685,000
2045	715,000
2046	745,000
2047*	780,000

*Maturity

\$4,440,000 Series 2023A Term Bond Maturing August 15, 2052

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2048	\$810,000
2049	850,000
2050	885,000
2051	925,000
2052*	970,000

*Maturity

[The remainder of this page intentionally left blank]

The Series 2023B Bonds. The Series 2023B Bonds maturing on August 15 in the years 2032, 2039, 2046 and 2052 (the “Series 2023B Term Bonds”) are subject to mandatory sinking fund redemption prior to the scheduled maturity of the Bond, and will be redeemed by the Authority, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

\$820,000 Series 2023B Term Bond Maturing August 15, 2032

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2023	\$25,000
2024	70,000
2025	75,000
2026	80,000
2027	85,000
2028	90,000
2029	95,000
2030	95,000
2031	100,000
2032*	105,000

*Maturity

\$930,000 Series 2023B Term Bond Maturing August 15, 2039

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2033	\$115,000
2034	120,000
2035	125,000
2036	130,000
2037	140,000
2038	145,000
2039*	155,000

*Maturity

\$1,335,000 Series 2023B Term Bond Maturing August 15, 2046

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2040	\$160,000
2041	170,000
2042	180,000
2043	190,000
2044	200,000
2045	210,000
2046*	225,000

*Maturity

\$1,615,000 Series 2023B Term Bond Maturing August 15, 2052

Mandatory Sinking Fund Redemption Date (August 15)	Principal Amount
2047	\$235,000
2048	250,000
2049	260,000
2050	275,000
2051	290,000
2052*	305,000

*Maturity

The Paying Agent/Registrar shall record in its official records the reductions in principal amount of the Series 2023 Bonds due to mandatory sinking fund redemption payments and provide the Authority with evidence of such record of reduction upon written request of the Authority. The portion of the principal amount of the Series 2023 Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the Authority, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the Authority and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Series 2023 Bonds, the Paying Agent/Registrar, at the direction of the Authority, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Series 2023 Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE SERIES 2023 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

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

So long as a Book-Entry-Only System is used for the Series 2023 Bonds, the Paying Agent/Registrar and the Authority will send any notice of redemption, notice of proposed amendment to the Resolution or other notices with respect to the Series 2023 Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Series 2023 Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Series 2023 Bonds by the Authority will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Authority or the Paying Agent/Registrar. Neither the Authority nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Series 2023 Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Series 2023 Bonds selected for redemption. See “- Book-Entry-Only System” below.

Book-Entry-Only System

This section describes how ownership of the Series 2023 Bonds is to be transferred and how the principal of and interest on the Series 2023 Bonds are to be paid to and credited by DTC while the Series 2023 Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

Neither the Authority or the Underwriters can and do give any assurance that (i) DTC will distribute payments of debt service on the Series 2023 Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2023 Bonds), or redemption or other notices, to the Beneficial Owners (as defined herein), or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series 2023 Bonds. The Series 2023 Bonds have been issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate has been issued for each stated maturity of the Series 2023 Bonds in the aggregate principal amount of each such maturity and has been deposited with DTC.

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

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

Purchases of Series 2023 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2023 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2023 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2023 Bonds, except in the event that use of the Book-Entry-Only System for the Series 2023 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2023 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2023 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2023 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2023 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Series 2023 Bonds may wish to ascertain that the nominee holding the Series 2023 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2023 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2023 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2023 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Series 2023 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name,"

and will be the responsibility of such DTC Participant and not of DTC, the Paying Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2023 Bonds at any time by giving reasonable notice to the Authority and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, physical Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Series 2023 Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Series 2023 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the DTC Participant acquires an interest in the Series 2023 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the Authority, printed Series 2023 Bonds will be issued to the holders and the Series 2023 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “Registration, Transfer and Exchange” below.

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas. In the Resolution, the Authority retains the right to replace the Paying Agent/Registrar. The Authority has covenanted to maintain and provide a Paying Agent/Registrar at all times until the Series 2023 Bonds are duly paid and no longer outstanding. Any successor Paying Agent/Registrar must be a commercial bank or trust company under the laws of the state of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Series 2023 Bonds. Upon any change in the Paying Agent/Registrar for the Series 2023 Bonds, the Authority has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Series 2023 Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Series 2023 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. The Series 2023 Bonds may be assigned by the execution of an assignment form on the respective Series 2023 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2023 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2023 Bonds being transferred or exchanged, at the corporate trust office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Series 2023 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount

as the Series 2023 Bonds surrendered for exchange or transfer. See “-Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2023 Bonds. Neither the Authority nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Series 2023 Bond called for redemption, in whole or in part, where such redemption is scheduled to occur within 45 calendar days after the transfer or exchange date; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Series 2023 Bond.

Record Date For Interest Payment

The record date (“Record Date”) for the interest payable on the Series 2023 Bonds on any Interest Payment Date means the last Business Day of the month next preceding an Interest Payment Date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Authority. Notice of the Special Record Date and of the scheduled payment date of the past due interest (a “Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Series 2023 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the Special Record Date.

Additional Bonds

The Authority has reserved the right in the Resolution to issue Additional Bonds payable from the same source as the Series 2023 Bonds and on a parity therewith under the terms set forth in the Resolution and the Water Facilities Financing Agreement. See “THE RESOLUTION”. The Authority has also reserved the right to issue bonds, credit agreements or other obligations payable in whole or in part from the Pledged Revenues or secured by a pledge of the Pledged Revenues that is junior and subordinate to the pledge of the Pledged Revenues securing the Series 2023 Bonds.

DESCRIPTION OF THE AUTHORITY

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

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

The Authority was created by the Texas Legislature to provide an adequate water supply for municipal, industrial, agricultural and other useful purposes for the inhabitants and water users of the Galveston, Brazoria and Fort Bend counties. Specifically, Section 3 of the Act authorizes the Authority to conserve, store, transport, treat and purify, distribute, sell and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purpose. The Authority is expressly authorized to acquire water supplies from sources both within and without the Authority, to sell, transport and deliver water to customers situated within or without the Authority, to acquire all properties and facilities necessary and useful for such purposes, and to enter into contracts for such purposes on such terms as its Board of Directors may deem

desirable, for any periods of time not exceeding forty years. The Authority is also authorized to serve existing and potential customers in Brazoria County and Fort Bend County, Texas.

The Authority presently owns and operates seven pumping plants, thirty-five miles of pipelines, two hundred and ninety-six miles of canals, and a fifty-seven MGD potable water treatment plant. Currently, the Authority's facilities are generally within four primary systems, a canal system, a currently separate Juliff/Chocolate Bayou canal system, a municipal system providing potable water to a number of municipalities and special districts, and an industrial system. Each system was financed separately and is treated as a separate fund within the Authority. The designated revenues derived from operation of each system are pledged only to the payment of bonds issued to acquire or extend that particular system. In addition, the Authority issues special project bonds for and constructs facilities to serve specific groups of customers, such as the Mackey Plant Expansion Project (as defined herein), that are secured by payments under standalone contracts. The Series 2023 Bonds are secured by (i) a first lien on and pledge of the Pledged Revenues and (ii) the Reserve Fund for each series required by the Bond Resolution. They are not secured by any other funds or revenues of the Authority. See "THE SERIES 2023 BONDS – Security for the Series 2023 Bonds." See "SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT" for additional information on the Water Facilities Financing Agreement and the Participants' payment obligations. The Water Facilities Financing Agreement provides for the financing of the Mackey Plant Expansion Project, which is part of the Municipal Division, as described below.

Outside of certain special projects, such as the project being financed with the Series 2023 Bonds, the Authority's operations may generally be divided into three separate water delivery and revenue sources as described below.

Canal Systems - The Authority operates two main canal systems. The first is generally composed of canals A, B and G canals and the second is composed of the Juliff/Chocolate Bayou Canal system. These canal systems include approximately 296 miles of main-line canals and laterals, and about 380,000 ac-ft. of water rights on the lower basin of the Brazos River. These arteries allow river water to be delivered to 1) approximately 17,000 acres of commercial and hybrid seed rice in Brazoria and Galveston Counties as well as a Rice Research Facility located outside of Alvin, Texas, a provider of world-wide technology for the rice industry, 2) industrial customers, including INEOS Olefins and Polymers, and Ascend Performance Materials, 3) municipal customers, including the cities of Sugar Land, Pearland and Missouri City, as well as Fort Bend County Water Control and Improvement District No. 2 and Pecan Grove Municipal Utility District, and 4) to the Industrial and Municipal divisions in Galveston County described below.

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

Municipal Division – The Authority owns and operates the Thomas S. Mackey Water Treatment Plant (the "Mackey Plant") located in Texas City. The Mackey Plant is a conventional surface water treatment plant serving 13 water utilities in Galveston County. The plant was originally constructed by the City of Texas City in 1978 and acquired by the Authority in 1983. The plant's most recent expansion occurred in 2000. The Series 2023 Bonds are being issued in connection with a 7.9 MGD expansion of the Mackey Plant, which will expand the capacity of the Mackey Plant from the existing 49.7 MGD to approximately 57.6 MGD. The customers of the Municipal Division include the cities of Texas City, La Marque, Galveston, Hitchcock, and League City, Galveston County Water Control and Improvement District No. 1, Galveston County Water Control and Improvement District No. 8, Galveston County Water Control and Improvement District No. 12, Galveston County Fresh Water Supply District No. 6, Galveston County Municipal Utility District No. 12, Bacliff Municipal Utility District, Bayview Municipal Utility District and San Leon Municipal Utility District. The Mackey Plant Expansion Customers are participating in the Mackey Plant Expansion Project in order to facilitate an increase in their contract quantities delivered through the Municipal Division under their Customer Contracts. The Municipal Division receives water through the Canal System and the Industrial Division.

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

MACKEY PLANT EXPANSION

The Mackey Plant Expansion Customers are each parties to separate Customer Contracts under the terms of which the Authority sells water to the Participants through the Municipal Division and pursuant to which the Participants have previously financed the construction and acquisition of water supply facilities to serve the Participants. The Mackey Plant Expansion Customers have each amended and restated their Customer Contracts in order to extend the termination date of the contracts to December 31, 2052 and increase the contract quantities for water delivered from the Municipal Division in connection with the Mackey Plant Expansion Project. No funds received by the Authority under the Customer Contracts are pledged to the payment of the principal of or interest on the Series 2023 Bonds. The amended and restated Customer Contracts obligated the Mackey Plant Expansion Customers to make capital contributions toward the Mackey Plant Expansion Project and/or participate in a separate financing of the costs of the Mackey Plant Expansion Project under separate Water Facilities Financing Agreements.

The Mackey Plant Expansion Project is a special facilities Project. It is being funded through a combination of the proceeds of the Series 2023 Bonds and capital contributions. The Water Facilities Financing Agreements are separate agreements with the Participants to facilitate the financing of the Mackey Plant Expansion Project with proceeds of the Series 2023 Bonds. The Nonparticipating Customer is funding its share of the remaining costs of the Mackey Plant Expansion Project through a capital contribution. GCWCID No. 12 is funding a portion of its allocated share of the costs through a capital contribution and a portion of its costs through participation in the Series 2023 Bonds. Table 1 provides additional detail on the Mackey Plant Expansion Customers

Table 1 – Mackey Plant Expansion Participants

Customer	Mackey Plant Expansion Contract Quantity (GPD)	Percentage of Total Mackey Plant Expansion Contract Quantity	Contract Quantity Associated with Capital Contributions for Project (GPD)	Contract Quantity Associated with Amount Financed by the Series 2023 Bonds (GPD)	Percentage of Total Amount Financed by the Series 2023 Bonds
Participants:					
City of Hitchcock	500,000	6.32911%	0	500,000	7.23140%
City of La Marque	1,247,000	15.78481%	0	1,247,000	18.03512%
City of League City	3,000,000	37.97468%	0	3,000,000	43.38843%
Galveston County WCID No. 8	659,000	8.34177%	0	659,000	9.53099%
Galveston County WCID No. 12	2,044,000	25.87342%	535,714	1,508,286	21.81405%
Nonparticipating Customers:					
Galveston County FWSD No. 6	450,000	5.69620%	450,000	0	0.00000%
	<u>7,900,000</u>	<u>100.00000%</u>		<u>6,914,286</u>	<u>100.00000%</u>

INVESTMENT CONSIDERATIONS

Series 2023 Bonds Not Payable from Taxes

The Series 2023 Bonds are special obligations of the Authority and not the State of Texas, or any political subdivision other than the Authority. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT.” The Series 2023 Bonds, together with the interest thereon, are payable solely from the Pledged Revenues and do not constitute an indebtedness or general obligation of the Authority. The Series 2023 Bonds are not

a charge against any other funds of the Authority and no bondholder shall have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation. The Authority has no taxing power, and the Series 2023 Bonds are not secured by the pledge of ad valorem taxes from any source.

Infectious Disease Outlook (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 for any business or other establishment. The Governor retains the right to impose additional 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.

With the easing or removal of COVID-19 associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19 or a similar virus. The Authority cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. The debt service on the Series 2023 Bonds is paid from contract payments received from the Participants. The Participants plan to make such payments from the revenues of their water and sewer systems and the use of and revenues from such water and sewer systems could be affected if COVID-19 related restrictions were reimposed. See “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT.”

Severe Weather

The greater Houston/Galveston area, including the area within which the Authority and the Participants are located, is subject to, and the Authority has experienced on several occasions in the last five years, occasional severe weather events, including tropical storms and hurricanes. If the Authority or the Participants were to sustain damage to their facilities requiring substantial repair or replacement, or if substantial damage were to occur to the land and water users within the Authority’s service area as a result of such a weather event, the Authority’s ability to collect payments from the Participants under the Water Facilities Financing Agreement and pay the Series 2023 Bonds could be adversely affected.

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

During Hurricane Harvey, the Authority sustained damage to the Shannon Pumping Plant intake structure, Briscoe Pumping Plant riverbank, May Pumping Plant riverbank, Mustang Reservoir levees, and canal levees at various locations within the Authority’s canal system. The resulting damage from Hurricane Harvey did not impact the ability of the Authority to provide services to its customers. The Authority made claims with FEMA, and FEMA has obligated funds exceeding \$41 million for the repair and modernization of the Shannon Pumping Plant. The Authority currently anticipates utilizing FEMA Funds and additional funds to be raised from a future Canal System bond issue for such project. The Shannon Pumping Plant project is currently estimated to cost approximately \$90 million.

Exposure to Oil and Gas Industry

In the past, the greater Houston area has been affected by adverse conditions in the oil and gas industry. Declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse

conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. Adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact demand for residential and commercial property in the Houston area and could reduce or negatively impact the demand for water and the revenues available to the Participants to make Participant Financing Charges Payments.

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 Series 2023A 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 Series 2023A Bonds. Prospective purchasers of the Series 2023A Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT

Selected provisions of the Water Facilities Financing Agreements relating to the Mackey Plant Expansion, (referred to in this section, the “Water Facilities Financing Agreement” or the “Agreement”), are reproduced and/or summarized below. The provisions reproduced below are not a complete recital of all of the terms of the Water Facilities Financing Agreement, and reference is made to the Water Facilities Financing Agreement in its entirety, copies of which are available upon request to the Authority’s Financial Advisor. Following the issuance of the Series 2023 Bonds, the Series 2023 Bonds will be the only two series of bonds outstanding that are secured by payments from the Participants under the Water Facilities Financing Agreement.

Article I - Definitions

Section 1.01 Definitions. Unless otherwise expressly provided in the Agreement or unless the context clearly requires otherwise, the following terms shall have the meanings specified below:

“Act” means the Interlocal Cooperation Act (Chapter 791, Vernon’s Texas Government Code, as amended).

“Agreement” means the Water Facilities Financing Agreement, as may be amended or supplemented from time to time.

“Amended and Restated Customer Contract” means, following its effective date, the amended and restated customer contract executed in 2022 under which the Authority sells water to customers through the Municipal System, as defined therein.

“Authority” means the Gulf Coast Water Authority, a Texas conservation and reclamation district.

“Bonds” or “Mackey Plant Expansion Bonds” means the bonds issued under the Agreement and the related bond resolutions, including any refunding bonds.

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

“Customer Contract” means the Mainland Water Project Customer Contract (South Project) previously entered into by the Authority and each Participant, as amended by the operative portions of the Amended and Restated Customer Contract, and as amended from time to time, under the terms of which the Authority sells water to the Participants and has previously financed the construction and acquisition of water supply facilities to serve the Participants.

“Debt Service Reserve Fund” shall mean the special fund or funds to be established, maintained, and utilized, from time to time as debt service reserve funds for any one or more series Bonds issued under the Agreement under a bond resolution.

“Debt Service Reserve Fund Requirement” shall mean an amount equal to the lesser of (i) the maximum annual debt service required on the outstanding principal of the Bonds, (ii) one-hundred-twenty-five percent (125%) of the average annual debt service required thereof, or (iii) ten percent (10%) of the principal amount of the Bonds, or such lesser amount required by Treasury Regulation § 148-2(f)(2) or any successor Treasury Regulation.

“Participants” means the entities participating in the issuance of the Bonds, listed in Schedule I of the Agreement, including the Participant.

“Participant Financing Charges” has the meaning ascribed in Section 4.01(a) of the Agreement.

“Participant Financing Charges Payments” has the meaning ascribed in Section 4.02(a) of the Agreement.

“Participant Operating Charges” has the meaning ascribed in Section 4.02(b) of the Agreement.

“Participant Operating Charges Payments” has the meaning ascribed in Section 4.02(b) of the Agreement.

“Participant’s Pro-Rata Portion” means the Participant’s pro rata portion of the bonds and debt service thereon, determined in accordance with the percentages set forth in Schedule I of the Agreement.

“Project” means the acquisition, construction and equipment of the water supply facilities and improvements described in Exhibit A of the Agreement and such additional facilities and improvements as the Participants and the Authority may agree in writing.

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

Article II - Construction and Financing of the Project

Section 2.01 Construction.

(a) The Authority will cause plans, specifications and contract documents to be prepared by such consultants the Board of Directors of the Authority approves and determines are necessary for the preparation of the plans, specifications and contract documents for the Project.

(b) The Project may be constructed in one or more phases and in one or more separately bid construction contracts. When the plans, specifications and contract documents for a phase of the Project have been finalized, the Authority shall give notice and take competitive bids on the construction of such phase of the Project. The Authority agrees that it will make copies of the plans, specifications, and contract documents available for inspection by the Participant after the same have been finalized.

(c) Subject to the issuance of Bonds to finance the Project, the Authority shall award construction contracts and proceed with the construction of the Project. The Authority agrees that it will make copies of the contracts for construction of the Project available for inspection by the Participants upon request after the same are awarded and executed.

(d) The Authority shall determine the location of the Project’s facilities and shall use its best efforts to acquire the rights in the real estate as the sites therefor to the extent not already owned by the Authority. The Authority shall determine the necessary rights-of-way that must be acquired, if any, and proceed to acquire the necessary real estate, permits or easements for the Project.

(e) The Authority agrees to use reasonable efforts in constructing and completing the Project and in seeking all permits and required approvals therefor pursuant to the provisions hereof. The Authority shall not be liable to the Participants for any delay in completion of construction of any damages arising out of any delay by Authority in placing the Project into service. The Authority shall report on the progress and costs of construction of the Project at the appropriate customer meetings, which are expected to take place not less frequently than once per quarter.

(f) The Authority shall not be responsible for paying for the design, construction or acquisition of the Project, including without limitation the costs of consultants and the costs of land and rights of way acquisition, out of any of its own funds other than from proceeds of contract revenue bonds issued by the Authority for such purpose in accordance with the Agreement.

Section 2.02 Financing.

(a) The Authority shall cause its financial advisor to prepare a plan for financing the costs of the Project and provide the same to the Participants for review. The costs of the Project shall include all design, construction and acquisition costs as those terms are generally understood in standard accounting practice as applied to water transmission systems of this nature, including but not limited to, purchases of equipment, supplies, capitalized interest, costs of land, easements and rights of way, including damages to land and property, raw water, engineering, financing, financial consultants, auditing, permitting and legal expenses incurred in connection with the preparation of the Agreement, the acquisition, design and construction of the Project and the issuance of the contract revenue bonds by the Authority. The maximum principal amount of the Bonds issued for the Project shall not exceed \$23,000,000, unless a greater amount is consented to in writing by the Participant. The Bonds may be issued in one or more series and may be issued on a tax exempt or taxable basis as determined by the Authority.

(b) Subject to the Authority's ability to provide for the construction of the Project as provided in Section 2.01 of the Agreement and the Authority's receipt of the requisite approvals from applicable governmental authorities, the Authority shall issue the Bonds in one or more series at such times and in such amounts as the Authority shall deem appropriate to finance the costs of the Project, subject to the limitation on the maximum principal amount established in subsection (b), above. The Authority shall submit to the Participants for review, a copy of the official statement, if any, the bond resolution and the terms of the sale of the Mackey Plant Expansion Bonds to be issued to finance or refinance the cost of the Project.

(c) The Authority, with the consent of the Participants, may determine in the future that it is in the best interest of the Participants and the Authority to refinance the Bonds, any Bonds previously or subsequently issued to finance or refinance the Projects, or any Bonds issued to complete or improve the Projects, and to issue additional series of Bonds for such purposes under the bond resolution of the Authority authorizing issuance of the Mackey Plant Expansion Bonds and any additional or supplemental bond resolutions adopted by the Authority in connection with the issuance of any such refunding bonds or additional bonds; provided, however, that no consent shall be required to issue refunding bonds that produce net present value savings and do not extend the maturity of the Bonds being refunded.

(d) The Bonds shall be special revenue obligations of the Authority payable from and secured solely by the Participant Financing Charges Payments to be made by the Participant under the Agreement, the payments to be made by the other Participants under agreements in substantially the same form as the Agreement, certain proceeds of the Bonds, and other amounts from time to time on deposit in the various funds or accounts created under a bond resolution authorizing the issuance of the Bonds.

(e) The Authority and the Participant covenant and agree that neither of them shall use or permit to be used any of the Project acquired under the Agreement with tax-exempt bonds in any manner or for any purpose which would cause any Bond issued on a tax-exempt basis to be deemed a "private activity bond" within the meaning of Section 141 of the Code, or as an "arbitrage bond" within the meaning of Section 148 of the Code. Further, the Participant agrees to cooperate with the Authority in the issuance of any Bonds and the preparation of any offering document or application relating to such Bonds. Participant acknowledges that a portion of the Bonds may be issued on a taxable basis.

(f) The Participant covenants and agrees to provide to the Authority with such financial information, data, projections and related information as may reasonably be required by the Authority in connection with the sale of the Bonds, approval of the Bonds by the Texas Attorney General, and ongoing compliance with all applicable laws, rules and regulations relating to the issuance of such Bonds, including the continuing disclosure obligations described in Section 8.01 hereof.

(g) Following the sale of a series of Bonds, the Authority shall furnish the Participants a maturity schedule showing the annual payments required to pay all principal of and interest on the Bonds when and as the same shall become due and payable (including any mandatory sinking fund payments in connection with such Bonds) and the Participant's Pro-Rata Portion of such payments, determined in accordance with the percentages set forth in Schedule I hereto.

(h) Any excess proceeds from the Bonds, including interest earnings on the proceeds of the Bonds, which remain after the completion of the Project shall be utilized to redeem Bonds, transferred to the interest and sinking fund for the Bonds or used to construct other facilities on behalf of the Participants (pursuant to a contract between the Authority and the Participants).

(i) The Participant shall have the right to cause the Authority to redeem or defease the Participant's Pro-Rata Portion of the Bonds, determined in accordance with the percentages set forth in Schedule I hereto, prior to their scheduled maturities, in whole or in part, as authorized by the applicable bond resolution. The Participant shall provide the Authority with written notice of such early redemption, including the maturities and amounts to be redeemed and evidence satisfactory to the Authority of the Participant's obligation to pay the principal amount of, plus accrued interest, on such Bonds scheduled for early redemption. Participant shall be responsible for all costs and expenses associated with any such redemption or defeasance, including the fees and expenses of the Authority's bond counsel, financial advisor, verification agent, escrow agent or other consultant.

Section 2.03 Reserve Funds.

(a) Each bond resolution of the Authority authorizing a series of Bonds shall provide for the establishment and maintenance of a Debt Service Reserve Fund to be used to prevent a default in the payment of principal of, premium, if any, and interest on and paying agent/registrars fees on the Bonds if there is insufficient money for such purposes in the interest and sinking fund established for such Bonds. Each Participant shall be responsible for the payment of its pro rata portion of the Debt Service Reserve Fund Requirement as part of the Participant Finance Charges.

(b) Each bond resolution of the Authority authorizing a series of Bonds may provide for the establishment and maintenance such other reserve funds as may be required in connection with the financing or refinancing of the Project.

Section 2.04 Additional Bonds. The Authority reserves the right to issue additional parity Bonds payable from the same source as the Bonds to finance any costs of completing the Project and to finance any additions, extensions or improvements to the Project or other facilities, but the Authority will not issue any such additional Bonds without the prior written consent of the Participants.

Article III - Ownership and Operation

Section 3.01 Ownership of the Project. It is expressly agreed and understood that the Authority shall be the owner of the Project, including the related appurtenances, sites, rights of way, easements and improvements thereto. The Authority shall own all of the water delivered through the Project until it passes through the delivery point to the Participant as set forth in the Customer Contract and Amended and Restated Customer Contract.

Section 3.02 Operation of the Property.

(a) From and after the completion of the Project the Authority shall operate and maintain the Project, at the sole cost and expense of the Participants, throughout the term of the Agreement.

(b) The Authority agrees to operate and maintain the Project in good operating condition, consistent with other similar facilities operated by the Authority, and further agrees that such operation and maintenance shall be done and performed in a manner that will best assure that such facilities shall remain in good operational condition consistent with their intended uses.

(c) Operation and maintenance expenses related to the Project shall include expenses of the same character as those included in, as applicable, Mainland Project Operating Charges under the Customer Contract (as defined therein) or Municipal System Operating Expenses under the Amended and Restated Customer Contract (as defined therein).

Article IV - Payments by Participant to the Authority

Section 4.01 Amount of Payments. As full and complete consideration for the services to be performed by the Authority hereunder, for so long as any of the Bonds are outstanding under a bond resolution that authorized the issuance of such Bonds, the Participant shall pay to the Authority a sum equal to the following payments:

(a) *Participant Financing Charges.* The Participant's Pro-Rata Portion of all costs and expenses paid or incurred by the Authority in connection with the financing or refinancing of the Project (collectively, the "Participant Financing Charges"), including without limitation, the following:

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

(2) amounts related to the Bonds and required under the applicable bond resolution to be paid or deposited into any fund or account established by such bond resolution (other than funds and accounts referred to in clause (1) above), including any amounts required to be paid or deposited by reason of the transfer of moneys from such funds or accounts to the funds or accounts referred to in clause (1) above, provided that the Participants shall receive credits against any amounts due under the preceding paragraph (1) or this paragraph (2) for investment earnings (net of any losses and expenses), if any, on amounts deposited in any funds created under such bond resolution and required to be paid by the Participants under the preceding paragraph (1) or this paragraph (2);

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

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

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

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

(b) *Participant Operating Charges.* The “Participant Operating Charges,” shall be in an amount equal to the operations and maintenance expenses described in Section 3.02(c) of the Agreement. The Participant Operating Charges shall be allocated in the same manner as Mainland Project Operating Charges for the Water Plant under the Customer Contract (as defined therein). At such time as the Amended and Restated Customer Contract is effective, the Participant Operating Charges shall be allocated in the same manner as Municipal System Operating Charges (as defined therein).

Section 4.02 Timing of Payments.

(a) *Participant Financing Charges Payments.* Payments of Participant Financing Charges (the “Participant Financing Charges Payments”) shall be payable in periodic payments as follows:

(1) For the purpose of paying current debt service on the Bonds and maintaining required reserve funds the Participant’s pro rata share, determined in accordance with the percentages set forth in Schedule I hereto, of the following monthly payments shall be made by the Participant not later than the 25th day of the month:

- (i) One-sixth (1/6th) of the interest payments on all of the Bonds then outstanding that are due and payable on the next interest payment date; plus
- (ii) One-twelfth (1/12th) of all principal payments (whether at maturity or by reason of any mandatory or extraordinary redemption provisions) on all Bonds that are due and payable on the next principal payment or redemption date and the costs of any credit agreements entered into in connection with the Bonds; plus
- (iii) One-twelfth (1/12th) of all paying agent/registrars, trustee fees, and other expenses paid in connection with the Bonds; plus
- (iv) the monthly amount required to be deposited into the Debt Service Reserve Fund, or operating and maintenance reserve fund, if any, in order to ensure the maintenance of the proper balance in such reserve fund in the manner set forth in the bond resolution authorizing the issuance of Bonds.

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

(b) *Participant Operating Charge Payments.* Payments of Participant Operating Charges (the “Participant Operating Charges Payments”) shall be made monthly by the Participant to the Authority in the same manner as payments of, as applicable, Mainland Project Operating Charges under the Customer Contract (as defined therein) or Municipal System Operating Charges under the Amended and Restated Customer Contract (as defined therein).

Section 4.03 Source of Payments.

(a) The Participant and the Authority recognize that the Bonds will be payable from, and secured by, a pledge of the Participant Financing Charges Payments to be received by the Authority under the Agreement and the amounts payable by the other Participants under agreements in substantially the same form as the Agreement, and that in order to make the Bonds marketable at the lowest available interest rate, it is to the mutual advantage of the Participants and the Authority that the Participants’ obligation to make the payments required hereunder be unconditional. All sums payable hereunder to the Authority shall, so long as any part of the Bonds are outstanding and unpaid, be paid by the Participants without set-off, counter-claim, abatement, suspension or diminution except as otherwise expressly provided herein. So long as any part of the Bonds are outstanding and unpaid, the Agreement shall not terminate, nor shall the Participants have any right to terminate the Agreement nor be entitled to the abatement of any payment or any reduction thereof nor shall the obligations hereunder of the Participants be otherwise affected

for any reason, it being the intention of the parties that so long as any part of the Bonds are outstanding and unpaid, all sums required to be paid by the Participants to the Authority shall continue to be payable in all events and the obligations of the Participants hereunder shall continue unaffected, unless the requirement to pay the same shall be reduced or terminated pursuant to an express provision of the Agreement. The amounts owed by the Participants under the Agreement shall be payable by the Participants, notwithstanding the suspension, interruption, temporary or permanent termination or unavailability of water from the Project, in whole or in part, for any reason whatsoever, and shall not be subject to any reduction, whether by offset or otherwise.

(b) If any Participant defaults in the payment of its allocated share of the Participant Financing Charges Payments described in Section 4.02(a)(iv) above for a particular series of Bonds, such amount shall be reallocated pro rata by the Authority based on the Contract Quantities set forth in Schedule I hereof of all non-defaulting Participants so that the full amount of the Participant Financing Charges described in Section 4.01(a)(iv) above shall always be paid notwithstanding the failure of any Participant to pay any portion thereof. The obligation to fund deficiencies in the Participant Financing Charges described above shall apply to all Bonds. The Participant shall be given a credit for any amounts paid pursuant to this provision if the defaulting Participant (or a successor in interest to such defaulting Participant) subsequently makes a payment for which it was in default. The Authority shall exercise good faith efforts to pursue all available legal remedies against the defaulting Participant to obtain payment from the defaulting Participant of its share of the Debt Service Requirements as reasonably practicable after such Participant defaults.

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

(d) During the term of the Agreement, so long as the Authority has potable water available from the Thomas Mackey Water Treatment Plant under the Customer Contract to supply the Participant in amounts sufficient to meet Participant's needs, the Participant shall not obtain potable water from a source other than the Authority except (i) from facilities owned by the Participant, contracted for, or included in Participant's capital improvement plan, on the date hereof, (ii) from groundwater sources now or hereafter available to the Participant, (iii) from the direct reuse by Participant of water received under the Agreement or from groundwater sources now or hereafter available to the Participant, upon written notice to the Authority, (iv) as may otherwise be permitted by the Agreement, or (v) with the consent of the Authority, which consent shall not be unreasonably withheld.

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

(f) The Participant covenants and agrees that any Participant Financing Charges Payment to the Authority required by Article IV shall be absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever.

Article V - Certain Termination Rights

Section 5.01 Term. The Agreement shall remain in force and effect to and including December 31, 2052, and thereafter until payments in full of the principal, premium, if any, and interest on all Bonds (whether paid at maturity, by defeasance or by redemption) and all related fees (including but not limited to paying agent fees and arbitrage rebate) to be paid under any bond resolution or indenture securing Bonds. Nothing in the Agreement operates to extend or

otherwise modify the term of the Customer Contract or the Amended and Restated Customer Contract. The Bonds issued under the Agreement are not Mainland Project Bonds or South Project Bonds as such terms are defined under the Customer Contract.

Section 5.02 Termination.

(a) The Authority's obligation to construct and acquire the Project is contingent upon receipt by the Authority of all necessary approvals, permits, or licenses from all local, state or federal agencies, departments or instrumentalities having jurisdiction, including without limitation the Texas Commission on Environmental Quality, the General Land Office the State Historical Commission and the Attorney General of Texas. If the Authority is unable to obtain any such approval, permit, or license, the Authority agrees to use best efforts to design alternatives which are capable of obtaining such approvals, permits or licenses. If such efforts are unsuccessful, the Participant and the Authority may mutually agree to terminate the Agreement.

(b) If the Agreement is terminated under the provisions of Article V, the Authority shall cause all engineering data which has been prepared to the date of termination by the Authority's engineers with regard to the Project to be delivered to the Participants, together with a statement of actual expenses (including, but not limited to legal services) and other costs paid or incurred by the Authority with regard to the financing, engineering or design of the Project to the date of termination. Each Participant shall, promptly after such delivery, pay to the Authority a sum equal to its pro rata portion of such fees, expenses and costs, determined using the percentages set forth in Schedule I hereto. If the Bonds have been issued and the Project is not constructed, the Participant shall nevertheless continue to make all payments due hereunder until it instructs the Authority to redeem or defease its portion of the Bonds in accordance with Section 2.02(i) hereof and the applicable bond resolution, and no Bonds are outstanding under the bond resolution.

(c) Upon full repayment of the Bonds and any related amounts due as arbitrage rebates to the United States of America or to the paying agent for its Bonds or to the Authority in connection with the Bonds, any funds remaining in any sinking fund, debt service reserve fund or other account established under the terms of the Agreement or the Bond Resolution shall be promptly paid to the Participants on a pro rata basis by the Authority.

(d) Should the Authority fail to issue the Bonds within nine (9) months of the date of the Agreement, the Agreement shall terminate except for the payment of costs of the Project (including but not limited to legal fees, engineering and consulting costs) incurred by the Authority prior to the date of termination. The Participants recognizes that in order to commence and complete the Project as soon as possible, the Authority will incur contractual obligations to pay for certain costs of the Project. Promptly after the date of termination, the Authority will determine reasonable and necessary costs paid or incurred prior to such date and prepare an amortization schedule to pay and discharge all such costs within eighteen (18) months after the date of termination, and the Participant shall pay its monthly share of such costs in the same manner and from the same source as provided for the remaining payments under the Agreement.

Article VI - Defaults and Remedies

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

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

Section 6.02 Remedies.

(a) It is not intended hereby to specify (and the Agreement shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (including termination subject to the provisions of Section 5.02) existing at law or in equity may be availed of by either party and shall be cumulative.

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

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

(d) No waiver or waivers of any breach or default (or any breaches or defaults) by either party hereto of any term, covenant, condition, or liability hereunder, or of performance by the other party of any duty or obligation hereunder, shall be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, under any circumstance.

Section 6.03 Force Majeure. If Force Majeure (as defined below) prevents either party hereto from performing any of its obligations under the Agreement (except the unconditional obligation of the Participant to make the payments required in Article IV, in whole or in part, then the obligations of such party, to the extent affected by such Force Majeure, shall be suspended during the continuance of any inability so caused, so long as such party is exercising due diligence to resume performance at the earliest practicable time. As soon as reasonably possible after the occurrence of the Force Majeure relied upon, the party whose contractual obligations are affected thereby shall give notice and full particulars of such Force Majeure to the other party. The term "Force Majeure," as used herein, shall include, without limitation of the generality thereof, acts of God, fire, storm, flood, hurricanes, drought, insufficiency of water in the Brazos River and in Jones and Upper Oyster Creeks, Chocolate Bayou, Mustang Bayou or Halls Bayou, or other water source, landslide, subsidence of land, lightning, earthquake, washout, explosion, epidemic, war, acts of enemies or belligerents, sabotage, interference by, orders of, or compliance with requests or recommendations of civil or military courts or other authorities, including any agency or person appointed by any such authority or by any official thereof (whether de jure or de facto and whether acting legally or not), inability to obtain materials, strikes or other differences with labor (whether or not within the power of the party to settle the same), breakage or accident to machinery, canals, reservoirs or lines of pipe, or any other cause (whether or not of the same class or kind as those set forth above) not otherwise due to the fraud, criminal misconduct, willful misconduct or gross negligence of such party. It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts by acceding to the demands of the opposing party or parties when such settlement is unfavorable to it in the judgment of the party having the difficulty.

Article VII - Ownership of Plans, Reports, Specifications, Etc.

Section 7.01 Plans and Specifications. The Participant and the Authority agree that all designs, drawings, plans, specifications, reports, studies, or any other materials prepared for the Project shall be the property of the Authority, but that the Authority shall furnish to the Participants originals or reproductions of "as built" drawings of the Project upon completion of the construction.

Article VIII - Continuing Disclosure Agreement

Section 8.01 Continuing Disclosure. The Participant hereby agrees to furnish the Authority with such certificates, data, projections and related information as may be reasonably required by the Authority in connection with the sale of Bonds in order to comply with all applicable laws, rules and regulations, including 17 CFR 240.15c2-12 (municipal securities disclosure). To the extent the Participant's allocation percentage set forth in Schedule I hereto is greater than 20% or the Participant is otherwise required in connection with the sale of a series of Bonds, the Participant hereby agrees to enter into additional continuing disclosure agreements with the Authority as may be necessary in order to comply with SEC Rule 15c2-12 or other applicable securities laws in substantially the form attached hereto as Exhibit B. The Authorized Officer of Participant is hereby authorized to execute a continuing disclosure agreement on behalf of the Participant in substantially the form attached hereto as Exhibit B, with such changes as are authorized by such official as evidenced by his or her execution of such agreement.

Article IX - Miscellaneous

Section 9.02 No Additional Reserved Capacity or Contract Quantity. The Participant acknowledges and agrees that the Participant's Reserved Capacity (as defined in the Customer Contract) and Contract Quantity in the Authority's Mainland System (as defined in the Customer Contract) and in the Authority's Municipal System (as defined in the Amended and Restated Customer Contract) is established in the Customer Contract and the Amended and Restated Customer Contract. Nothing in the Agreement modifies the Participant's Contract Quantity (as defined in the Customer Contract and the Amended and Restated Customer Contract) or Reserved Capacity (as defined in the Customer Contract).

Section 9.03 Condemnation. In case any significant damage to or destruction of any part of the Project occurs or any significant part thereof is taken by eminent domain, the Authority and the Participants shall comply with the provisions of the applicable bond resolution with respect to authorizing refunding bonds or additional bonds.

Section 9.06 Amendments. The Agreement shall be subject to change or modification only with the mutual consent of the Authority and the Participant, but the Participant recognizes that the bond resolution securing the Authority's Bonds may contain covenants by the Authority not to consent to certain changes or modifications of the Agreement and, pursuant to Section 9.07 hereof, the Agreement shall be in substantially similar form for all Participants.

Section 9.07 Special Conditions. The document is in the form of a standard contract proposed for the Participants.

Section 9.12 Entire Agreement. The Agreement constitutes the entire agreement between the parties hereto relating to the funding of the Project. There are no warranties, representations, agreements, arrangements, or understandings, oral or written, relating to the subject matter hereof that are not fully expressed or provided for herein, and the parties shall not be bound by or liable for any alleged warranty, representation, agreement, arrangement, or understanding. Neither of the parties hereto have relied on any statements or representations that have been made by any other party that are not set forth in the Agreement, and neither party is entitled to rely on any representation, agreement or obligation that is not expressly stated in the Agreement. The Agreement does not amend in any way or extend the term of any other agreement between the parties hereto, including the Customer Contract.

THE RESOLUTION

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

Selected Definitions

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

“Additional Bonds” means additional parity contract revenue bonds, notes or credit agreements permitted to be issued or entered into by Sections 9.02 and 9.03 of the Resolution.

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

“Authorized Officer” means the General Manager or the Assistant General Manager of the Authority.

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

“Bond” or “Bonds” means the Authority’s Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023A (Tax-Exempt) and Contract Revenue Bonds (Thomas S. Mackey Water Treatment Plant Expansion), Series 2023B (Taxable) authorized to be issued by Section 3.01 of the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

“Interest and Sinking Fund” means the fund by that name established pursuant to Section 7.02 of the Resolution.

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

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

“Mackey Plant Expansion Financing Agreements” means those agreements, as may be amended from time to time, providing for the acquisition, construction, and equipment of the Mackey Plant Expansion Project, and currently described as follows:

- (a) that certain Water Facilities Financing Agreement (Thomas S. Mackey Water Treatment Plant Expansion) between the Authority and the City of Hitchcock, as amended or supplemented from time to time;
- (b) that certain Water Facilities Financing Agreement (Thomas S. Mackey Water Treatment Plant Expansion) between the Authority and the City of La Marque, as amended or supplemented from time to time;
- (c) that certain Water Facilities Financing Agreement (Thomas S. Mackey Water Treatment Plant Expansion) between the Authority and the City of League City, as amended or supplemented from time to time;
- (d) that certain Water Facilities Financing Agreement (Thomas S. Mackey Water Treatment Plant Expansion) between the Authority and the Galveston County Water Control & Improvement District No. 12, as amended or supplemented from time to time; and
- (e) that certain Water Facilities Financing Agreement (Thomas S. Mackey Water Treatment Plant Expansion) between the Authority and the Galveston County Water Control & Improvement District No. 8, as amended or supplemented from time to time.

“Mackey Plant Expansion Project” means the acquisition, construction and equipping of water supply facilities to serve the Participants, as further described in Exhibit A.

“MSRB” means the Municipal Securities Rulemaking Board.

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

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

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

“Participants” means the City of Hitchcock, the City of La Marque, the City of League City, Galveston County Water Control & Improvement District No. 12, and Galveston Water Control & Improvement District No. 8.

“Participant Financing Charges” shall have the meaning ascribed to such term in Section 4.01(a) of the Mackey Plant Expansion Financing Agreements.

“Participant Financing Charges Payments” shall have the meaning ascribed to such term in Section 4.02(a) of the Mackey Plant Expansion Financing Agreements.

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

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

“Pledged Revenues” means (i) Participant Financing Charges Payments; and (ii) any additional revenues, income, receipts, or other resources, including without limitations, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the Authority pursuant to official action by the Board, be pledged to the payment of the Parity Bonds.

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

“Purchase Contract” means the purchase contract or purchase contracts between the Authority and the Underwriters pertaining to the sale of the Bonds from time to time.

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

“Refunding Bonds” means the bonds described in Section 9.04 of the Resolution.

“Register” means the Register specified in Section 3.06(a).

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

“Representations Letter” means the Blanket Letter of Representations between the Authority and DTC.

“Reserve Fund” means the Reserve Fund established by Section 7.03 of the Resolution.

“Reserve Fund Participants” means with respect to Parity Bonds, any series of Parity Bonds designated by a resolution authorizing the issuance of such Parity Bonds as “Reserve Fund Participants” and secured by a lien on the Reserve Fund. All Parity Bonds shall be Reserve Fund Participants.

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

“Reserve Fund Requirement” means an amount equal to the lesser of (i) the maximum annual debt service required on the outstanding principal of the Bonds, (ii) one-hundred-twenty-five percent (125%) of the average annual debt service required thereof, or (iii) ten percent (10%) of the principal amount of the Bonds.

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

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

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

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

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

“Special Project Bonds” means the bonds which the Authority reserves the right to issue in Section 9.05 of this Resolution to construct, acquire, add to, expand or extend properties, works and facilities to enable the Authority to serve any new or existing customer of the Authority.

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

“Taxable Bonds” means any Bonds so designated as taxable bonds in the Pricing Certificate.

“Tax-Exempt Bonds” means any Bonds so designated as tax-exempt bonds in the Pricing Certificate.

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

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

Security and Source of Payment for All Bonds

Pledge. Payment of the principal, premium, if any, and interest on the Bonds and any Parity Bonds shall be secured by and payable from a lien on and pledge of the Pledged Revenues, and the Pledged Revenues are further pledged to the establishment and maintenance of the funds created by the Resolution, and any funds created by any Bond Resolution authorizing the issuance of Parity Bonds. The Parity Bonds shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of the Pledged Revenues. The Parity Bonds are further secured by the Reserve Fund, as set forth herein.

Bonds as Special Obligations. The Bonds are special obligations of the Authority and the Owner thereof shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation. The Authority has no taxing power. Further, the Owners of the Bonds shall never have the right to demand payment from any revenues, receipts or assets of the Authority other than the Pledged Revenues and the Reserve Fund as set forth herein.

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

Funds and Accounts

Revenue Fund. In the Resolution, the Authority has created and established the “Gulf Coast Water Authority Mackey Plant Expansion Project Bond Revenue Fund” (the “Revenue Fund”) to be maintained on the books of the Authority, and accounted for separate and apart from all other funds of the Authority so long as any of the Parity Bonds are outstanding. All Pledged Revenues (excepting investment interest and income from the Interest and Sinking Fund and Reserve Fund) shall be credited to the Revenue Fund immediately upon receipt.

Interest and Sinking Fund. For the sole purpose of paying the principal of and interest on the Parity Bonds plus amounts paid under credit agreements, if any, the fees of the Paying Agent/Registrar and other bond related charges, in the Resolution the Authority has created and established on the books of the Authority, and there shall be maintained so

long as any of the Parity Bonds remain outstanding, accounted for separate and apart from all other funds of the Authority, a separate fund entitled the “Mackey Plant Expansion Project Bond Interest and Sinking Fund” (the “Interest and Sinking Fund”).

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

Project Fund. (a) The resolution establishes a separate fund entitled “Gulf Coast Water Authority Contract Revenue Bonds (South Transmission Line Project), Series 2023 Project Fund” (the “Project Fund”), which shall be established at an official depository of the Authority and kept separate and apart from other funds of the Authority.

(b) The proceeds of the Bonds deposited and held in the Project Fund and all interest, and income derived therefrom shall be used only for the purposes set forth in Section 3.01 of this Resolution and to pay costs of issuance not paid from the Issuance Costs Fund, if any. Bond proceeds deposited in the Project Fund shall be timely and expeditiously used, in accordance with the schedule for the Mackey Plant Expansion Project, as may be amended from time to time.

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

Flow of Funds

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

(i) First, rebate to the United States, when required, the amounts necessary to comply with the requirements of section 148(f) of the Code pursuant to Section 9.08(f) of the Resolution;

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

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

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

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

(vi) Sixth, for any lawful purpose.

Interest and Sinking Fund

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

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

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

Reserve Fund

Reserve Fund Requirements.

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

(b) The Authority shall establish and maintain as hereinafter provided a balance in the Reserve Fund equal to the Reserve Fund Requirement for the Parity Bonds that are secured thereby as established in a Bond Resolution authorizing such Parity Bonds. All interest earnings on the Reserve Fund shall remain therein so long as the balance therein is less than or equal to the Reserve Fund Requirement. The Reserve Fund Requirement will be determined upon the issuance of each series of Parity Bonds, at which time if the balance in the Reserve Fund exceeds the Reserve Fund Requirement, the amount of the excess shall be transferred to the Interest and Sinking Fund or used to refund Outstanding Parity Bonds.

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

(d) In any month in which the Reserve Fund contains less than the Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the Authority has elected to accumulate the Reserve Fund Requirement for any series of Additional Bonds as above provided), then on or before the last Business Day of such month, after making all required transfers to the Interest and Sinking Fund, there shall be transferred into the Reserve Fund from the Revenue Fund for the pro rata benefit of all of the Parity Bonds, such amounts as shall be required to permit the Authority to pay all obligations under any Reserve Fund Surety Bond allocable to the Reserve Fund within a twelve (12) month period and such additional amounts as shall be sufficient to enable the Authority within a twelve

(12) month period to reestablish in the Reserve Fund the Reserve Fund Requirement for the Parity Bonds; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum annual debt service scheduled to occur in any future Fiscal Year on all Parity Bonds then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 7.12 below. After such amounts have been accumulated in the Reserve Fund, and so long thereafter as such accounts contain the Reserve Fund Requirement, no further transfers shall be required to be made into the Reserve Fund, and any excess amounts in such accounts shall be transferred to the Interest and Sinking Fund or such other Funds as may be permitted by federal tax law. But if and whenever the balance in the Reserve Fund is reduced below the Reserve Fund Requirement, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Reserve Fund to such amount within a twelve (12) month period.

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

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

The Series 2023 Bonds are Reserve Fund Participants. See "THE SERIES 2023 BONDS – Security for the Series 2023 Bonds" for information regarding the Reserve Fund Requirement for the Series 2023 Bonds.

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

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

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

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

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

Discharge

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

Issuance of Additional Bonds

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

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

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

(b) Provision shall be made in the Bond Resolution authorizing the issuance of such Additional Bonds for increasing the Reserve Fund to the Reserve Fund Requirement as required by the Resolution with proceeds of the Additional Bonds, or other available source or combination of sources including periodic payments of Pledged Revenues, or both.

(c) To the extent required by the Mackey Plant Expansion Financing Agreements, prior written consent of the issuance of such Additional Bonds is given by all Participants obligated to pay Participant Financing Charges Payments at the time such consent is given.

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

Refunding Bonds. Subject to the provisions of the Mackey Plant Expansion Financing Agreements regarding Participant consent, if applicable, the Authority reserves the right to issue Refunding Bonds to refund any Parity Bonds. Refunding Bonds issued as Parity Bonds shall enjoy complete equality of lien with that portion of the principal amount of the Bonds that is not refunded, if any, and such Refunding Bonds shall continue to enjoy any priority of lien that may have been enjoyed by the portion of the principal amount of the Bonds refunded. Refunding Bonds may be issued in any manner now or hereafter authorized by law. The Authority reserves the right to issue subordinate lien bonds for the purpose of refunding any then Outstanding Parity Bonds.

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

Special Project Bonds. The Authority reserves the right to issue Special Project Bonds to construct, acquire, add to, expand or extend properties, works and facilities to enable the Authority to serve any new or existing customer of the Authority, and such Special Project Bonds may be payable from and secured by a first lien on and pledge of the revenues received by the Authority from the use, ownership, operation or lease of the properties, works and facilities constructed or otherwise acquired with the proceeds of Special Project Bonds or paid for by any new or existing water

customers of the Authority. It is specifically provided, however, that such Special Project Bonds shall not be payable from the Pledged Revenues.

General Covenants

Maintenance of the Project. While any of the Parity Bonds are outstanding and unpaid, the Authority shall maintain the Mackey Plant Expansion, or cause the Mackey Plant Expansion to be maintained in good condition, repair, and working order, and will operate the same, or cause the same to be operated, in an efficient and economical manner, at reasonable cost.

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

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

Modifications and Amendments

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

- (i) Make any change in the maturity of the outstanding Parity Bonds;
- (ii) Reduce the rate of interest borne by any of the outstanding Parity Bonds;
- (iii) Reduce the amount of the principal payable on the outstanding Parity Bonds;
- (iv) Modify the terms of payment of principal of or interest on the outstanding Parity Bonds, or impose any conditions with respect to such payment;
- (v) Affect the rights of the owners of less than all of the Parity Bonds then outstanding;
- (vi) Change the minimum percentage of the principal amount of Parity Bonds necessary for consent to such amendment.

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

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

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

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

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

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

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

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

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

Amendments to the Water Facilities Financing Agreement. The Authority may consent to the amendment of the Water Facilities Financing Agreement so long as such amendment does not reduce the Participants' obligation to pay Pledged Revenues.

Defaults and Remedies

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

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

(b) default in the performance or observance of any other covenant, agreement or obligation of the Authority, the failure to perform which materially, adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with this Resolution, and the continuation thereof for a period of 60 days after written notice of such default is given by any Owner to the Authority; provided, with respect to any such failure covered by this paragraph (b), no event of default shall be deemed to have occurred so long as a reasonable

course of action to remedy such failure shall have been commenced within such 60-day period and shall thereafter be diligently prosecuted to completion and the failure shall be remedied thereby.

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

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

[The remainder of this page intentionally left blank.]

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Series 2023 Bonds. See “THE SERIES 2023 BONDS - Security for the Series 2023 Bonds” and “SELECTED PROVISIONS OF THE WATER SUPPLY CONTRACTS.” Only the Participants are required to pay debt service on the Series 2023 Bonds.

Table 2 – Debt Service Requirements for Mackey Plant Expansion Bonds

Fiscal Year Ended 8/31	The Series 2023A Bonds		The Series 2023B Bonds		Total Debt Service Requirements
	Principal	Interest	Principal	Interest	
	2023	\$100,000	\$267,956	\$25,000	
2024	275,000	737,031	70,000	252,813	1,334,844
2025	290,000	723,281	75,000	249,138	1,337,419
2026	305,000	708,781	80,000	245,200	1,338,981
2027	320,000	693,531	85,000	241,000	1,339,531
2028	335,000	677,531	90,000	236,538	1,339,069
2029	350,000	660,781	95,000	231,813	1,337,594
2030	370,000	643,281	95,000	226,825	1,335,106
2031	390,000	624,781	100,000	221,838	1,336,619
2032	405,000	605,281	105,000	216,588	1,331,869
2033	430,000	585,031	115,000	211,075	1,341,106
2034	450,000	563,531	120,000	205,038	1,338,569
2035	470,000	541,031	125,000	198,738	1,334,769
2036	495,000	517,531	130,000	192,175	1,334,706
2037	515,000	497,731	140,000	185,350	1,338,081
2038	535,000	477,131	145,000	178,000	1,335,131
2039	555,000	455,731	155,000	170,388	1,336,119
2040	580,000	432,838	160,000	162,250	1,335,088
2041	605,000	408,913	170,000	153,450	1,337,363
2042	630,000	383,200	180,000	144,100	1,337,300
2043	655,000	356,425	190,000	134,200	1,335,625
2044	685,000	327,769	200,000	123,750	1,336,519
2045	715,000	297,800	210,000	112,750	1,335,550
2046	745,000	266,519	225,000	101,200	1,337,719
2047	780,000	233,925	235,000	88,825	1,337,750
2048	810,000	199,800	250,000	75,900	1,335,700
2049	850,000	163,350	260,000	62,150	1,335,500
2050	885,000	125,100	275,000	47,850	1,332,950
2051	925,000	85,275	290,000	32,725	1,333,000
2052	970,000	43,650	305,000	16,775	1,335,425
	<u>\$16,425,000</u>	<u>\$13,304,518</u>	<u>\$4,700,000</u>	<u>\$4,810,205</u>	<u>\$39,239,723</u>

Table 3 - Total Debt Service Requirements of the Authority

The Authority finances its water facilities through the issuance of contract revenue bonds. Each series of contract revenue bonds issued by the Authority is secured by payments under contracts with those customers of the Authority benefitting from the project being financed. The bonds for each project are separate securities with separate parties obligated to make payments and separate pledged revenues. Only those customers who are parties to contracts securing a particular series of bonds are obligated to make debt service payments on such bonds. The following Table 3 sets forth the debt service requirements for the Series 2023 Bonds and other outstanding bonds of the Authority. Reference

is made to the footnotes, which identify the entities that are obligated to make payments on a particular category of bonds.

Fiscal Year Ended 8/31	South Transmission System Bonds ⁽¹⁾	Mackey Plant Expansion Bonds	Texas City Reservoir and Raw Water Conveyance System Bonds ⁽²⁾	WCID No. 12 Project Bonds ⁽³⁾	City of League City Project SETL Bonds ⁽⁴⁾	Industrial Pump Station and Raw Water Transmission System Bonds ⁽⁵⁾	Total Debt Service Requirements
2023	\$95,005	\$484,723	\$1,246,782	\$123,695	\$776,340	\$1,167,542	\$3,894,087
2024	220,300	1,334,844	1,247,070	120,678	817,706	1,168,927	4,909,525
2025	222,300	1,337,419	1,241,504	122,660	820,456	1,174,176	4,918,515
2026	219,050	1,338,981	1,240,243	119,465	817,306	1,173,098	4,908,143
2027	220,800	1,339,531	1,243,128	121,270	811,706	1,165,883	4,902,318
2028	217,300	1,339,069		122,898	812,206	1,862,720	4,354,193
2029	218,800	1,337,594		119,348	814,806	1,866,891	4,357,438
2030	220,050	1,335,106		120,798	816,106	1,863,598	4,355,658
2031	221,050	1,336,619		122,070	813,456	1,863,031	4,356,226
2032	221,800	1,331,869		123,165	812,556		2,489,390
2033	217,300	1,341,106		119,083	815,356		2,492,845
2034	217,800	1,338,569			817,506		2,373,875
2035	218,050	1,334,769			817,806		2,370,625
2036	218,050	1,334,706			816,006		2,368,763
2037	217,800	1,338,081			818,506		2,374,388
2038	222,300	1,335,131			815,106		2,372,538
2039	221,300	1,336,119			816,006		2,373,425
2040	220,050	1,335,088			815,581		2,370,719
2041	219,850	1,337,363			819,238		2,376,450
2042	219,450	1,337,300			401,363		1,958,113
2043	218,850	1,335,625					1,554,475
2044	218,050	1,336,519					1,554,569
2045	217,050	1,335,550					1,552,600
2046	220,463	1,337,719					1,558,181
2047	218,450	1,337,750					1,556,200
2048	221,225	1,335,700					1,556,925
2049	218,575	1,335,500					1,554,075
2050	220,713	1,332,950					1,553,663
2051	217,425	1,333,000					1,550,425
2052	218,925	1,335,425					1,554,350
	<u>\$6,458,130</u>	<u>\$39,239,723</u>	<u>\$6,218,727</u>	<u>\$1,335,128</u>	<u>\$15,865,122</u>	<u>\$13,305,863</u>	<u>\$82,422,692</u>

- (1) Represents debt service on the Authority's Contract Revenue Bonds (South Transmission System), Series 2023 (the "South Transmission System Bonds") issued in connection with the South Transmission System, which is a component of the Municipal Division. The debt service on the South Transmission System Bonds will be paid by various political subdivisions that participate in the Authority's Municipal Division. See "DESCRIPTION OF THE AUTHORITY."
- (2) Represents debt service on the Authority's Contract Revenue Bond (Texas City Reservoir and Raw Water Conveyance System Project), Series 2016A (Tax-Exempt) and Contract Revenue Bond (Texas City Reservoir and Raw Water Conveyance System Project), Series 2016B (Taxable) (collectively, the "Texas City Reservoir and Raw Water Conveyance System Bonds") issued in connection with the Texas City Reservoir and Raw Water Conveyance System, which is a component of the Industrial Division. The debt service on the Texas City Reservoir and Raw Water Conveyance System Bonds is paid by various political subdivisions and industrial customers that participate in the Authority's Industrial Division and Municipal Division. See "DESCRIPTION OF THE AUTHORITY."
- (3) Represents debt service on the Authority's Contract Revenue Bond (WCID No. 12 Project), Series 2018 (the "WCID No. 12 Project Bonds") issued in connection with a special project for Galveston County Water Control and Improvement District No. 12 ("WCID No. 12"). The debt service on the WCID No. 12 Project Bonds is paid solely by WCID No. 12.
- (4) Represents debt service on the Authority's Contract Revenue Bonds (City of League City Project - Southeast Transmission Line), Series 2021 and Contract Revenue Bonds (City of League City Project - Southeast Transmission Line), Series 2022 (collectively, the "City of League City Project SETL Bonds") issued in connection with a special project for the City of League City, Texas. The debt service on the City of League City Project SETL Bonds is paid solely by the City of League City.
- (5) Represents debt service on the Authority's Contract Revenue Bond (Industrial Pump Station and Raw Water Transmission System Project), Series 2017 (the "Industrial Pump Station and Raw Water Transmission System Bonds") issued in connection with the Industrial Pump Station and Raw Water Transmission System, which is a component of the Industrial Division. The debt service on the Industrial Pump Station and Raw Water Transmission System Bonds is paid by various industrial customers that participate in the Authority's Industrial Division. See "DESCRIPTION OF THE AUTHORITY."

ALLOCATION OF DEBT SERVICE AND OPERATING CHARGES

The following Table 4 shows the percentage of the debt service on the Series 2023 Bonds and the other outstanding bonds of the Authority that is allocated to the Mackey Plant Expansion Customers (both Participants and the Nonparticipating Customer) and the allocation of debt service to other classes of customers that are not Mackey Plant Expansion Customers.

Table 4 - Allocation Percentages for Debt Service Requirements of the Authority

<u>Customer</u>	<u>South Transmission System Bonds</u>	<u>Mackey Plant Expansion Series 2023 Bonds ⁽¹⁾</u>	<u>Texas City Reservoir and Raw Water Conveyance System Bonds</u>	<u>WCID No. 12 Project Bonds</u>	<u>City of League City Project SETL Bonds</u>	<u>Industrial Pump Station and Raw Water Transmission System Bonds</u>
Participants:						
City of Hitchcock	17.70%	7.23%	1.35%	0.00%	0.00%	0.00%
City of La Marque	14.58%	18.04%	2.51%	0.00%	0.00%	0.00%
City of League City	49.06%	43.39%	2.30%	0.00%	100.00%	0.00%
Galveston County WCID No. 8	3.98%	9.53%	0.90%	0.00%	0.00%	0.00%
Galveston County WCID No. 12	14.68%	21.81%	0.94%	100.00%	0.00%	0.00%
Nonparticipating Customers:						
Galveston County FWSD No. 6	0.00%	0.00%	0.33%	0.00%	0.00%	0.00%
Other Municipal Division customers	0.00%	0.00%	26.15%	0.00%	0.00%	0.00%
Various Industrial Division customers	0.00%	0.00%	65.52%	0.00%	0.00%	100.00%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Percentages may not tie with other tables due to rounding.

[The remainder of this page intentionally left blank]

Allocation of Raw Water Charges and Mainland Operating Charges

The South Transmission System Customers are required to pay Raw Water Charges and Mainland Operating Charges to the Authority. The approximate Raw Water Charges and Mainland Operating Charges for each Customer for the fiscal years ended 2021 and 2022 are shown in the following table.

Table 5 - Raw Water Charges and Mainland Operating Charges

<u>Mackey Plant Expansion Customers</u>	<u>2022</u>	<u>2021</u>
City of Hitchcock	\$ 459,135	\$ 451,663
City of La Marque	1,432,655	1,312,181
City of League City	1,437,521	966,454
Galveston County WCID No. 8	425,147	308,939
Galveston County WCID No. 12	720,415	364,904
Galveston County FWSD No. 6	<u>192,852</u>	<u>112,581</u>
	\$ 4,667,725	\$ 3,516,722
<u>Other Municipal Division Customers</u>	<u>2022</u>	<u>2021</u>
Bacliff MUD	\$ 364,476	\$ 366,185
Bayview MUD	96,410	99,093
City of Galveston	6,592,763	6,487,820
City of Texas City	3,735,151	3,709,915
Galveston County MUD No. 12	130,027	114,840
Galveston County WCID No. 1	1,456,887	1,368,478
San Leon MUD	<u>492,432</u>	<u>498,329</u>
	<u>\$12,868,146</u>	<u>\$ 12,644,660</u>
Total Annual Charge	<u><u>\$17,535,871</u></u>	<u><u>\$ 16,161,382</u></u>

INVESTMENTS

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

Legal Investments

Under State law, the Authority is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the Authority selects from a list the governing body of the Authority or designated investment committee of the Authority adopts as required by Section 2256.025, Texas

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

A political subdivision such as the Authority may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above,

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

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

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

Investment Policies

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

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

Additional Provisions

Under the Investment Act, the Authority is additionally required to: (i) review and either amend or confirm its adopted policies and strategies annually; (ii) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the Authority to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (iii) require the registered principal of firms seeking to sell securities to the

Authority to: (a) receive and review the Authority’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities with the Authority, and (c) deliver a written statement attesting to these requirements; (iv) perform an annual audit of the management controls on investments and adherence to the Authority’s investment policy; (v) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers that complies with the Investment Act; (vi) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (vii) restrict the investment in mutual funds in the aggregate to no more than 80% of the Authority’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further prohibit the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Authority’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (viii) monitor the compliance of local government investment pools with the disclosure, rating, net asset value, yield calculation, advisory board and other Investment Act requirements.

Table 6 - Current Investments

As of December 31, 2022, the Authority’s investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
Cash	1.10%	\$602,668	\$602,668
TexPool	18.48%	10,080,901	10,080,901
Money Market	34.58%	18,858,071	18,858,071
Portfolio Investments	45.84%	25,000,000	24,938,191
	100.00%	\$54,541,640	\$54,479,831

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Series 2023A Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Series 2023A Bonds.

Tax Exemption

In the opinion of Bracewell LLP, Houston, Texas (“Bond Counsel”) under existing law, interest on the Series 2023A Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2023A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a tax requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The Authority has covenanted in the Resolution that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the excludability of interest on the Series 2023A Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the Authority and other parties involved with the issuance of the Series 2023A Bonds with respect to matters solely within the knowledge of the Authority and such parties, which Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on

the Series 2023A Bonds could become includable in gross income from the Date of Delivery of the Series 2023A Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Series 2023A Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2023A Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Series 2023A Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of results and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Series 2023A Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Authority as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Series 2023A Bonds could adversely affect the value and liquidity of the Series 2023A Bonds regardless of the ultimate outcome of the audit.

Collateral Tax Consequences

Prospective purchasers of the Series 2023A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Series 2023A Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Series 2023A Bonds.

For tax years beginning after December 31, 2022, an "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Series 2023A Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Series 2023A Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Series 2023A Bonds.

Prospective purchasers of the Series 2023A Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2023A Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price a portion of the Series 2023A Bonds exceeds the stated redemption price payable at maturity of such Series 2023A Bonds. Such Series 2023A Bonds (the "Premium Bonds") are considered for federal income tax

purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

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

Tax Accounting Treatment of Original Issue Discount

The issue price of a portion of the Series 2023A Bonds is less than the stated redemption price payable at maturity of such Series 2023A Bonds (the “OID Bonds”). In such case, the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Series 2023A Bonds. Generally, 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 OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Series 2023A Bonds under the captions “TAX MATTERS - Tax Exemption,” “- Collateral Tax Consequences” and “- Tax Legislative Changes” generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such OID Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Series 2023A Bonds for contemporaneous sale to the public and (ii) all of the OID Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on page ii of this Official Statement. Neither the Authority nor Bond Counsel has made any investigation or offers any comfort that the OID Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Bond accrues 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 date of the Series 2023A Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such OID Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and 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 (ii) the amounts payable as current interest during such accrual period on such OID Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID 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 OID 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 OID Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Series 2023A Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2023A Bonds. Prospective purchasers of the Series 2023A Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

TAX MATTERS – TAXABLE BONDS

THE FOLLOWING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE BONDS, INCLUDING THE EFFECT AND APPLICABILITY OF (I) U.S. FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS, (II) GIFT AND ESTATE TAX LAWS, AND (III) ANY INCOME TAX TREATY.

General

The following discussion summarizes certain material U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Series 2023B Bonds by an initial holder (as described below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Neither the Authority or Bond Counsel offers any assurance that the Services will not challenge one or more of the tax consequences described in this discussion, and neither the Authority nor Bond Counsel has obtained, nor do the Authority or Bond Counsel intend to obtain, a ruling from the Service or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Series 2023B Bonds.

This discussion is limited to holders who purchase the Series 2023B Bonds in this initial offering for a price equal to the issue price of the Bonds (*i.e.*, the first price at which a substantial amount of the Bonds is sold for cash other than to bondhouses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers, the “Issue Price”) and who hold the Series 2023B Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder’s circumstances or to certain categories of investors that may be subject to special rules, such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2023B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences for individuals or (ii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Series 2023B Bonds under state, local or non-U.S. tax laws.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Series 2023B Bonds, the tax treatment of such partnership or a partner of such partnership generally will depend upon the status of the partner and the activities of the partnership. ***Partnerships acquiring Series 2023B Bonds and partners of partnerships acquiring the Series 2023B Bonds should consult their own tax advisors about the U.S. federal income tax consequences of acquiring, holding and disposing of the Series 2023B Bonds.***

INVESTORS CONSIDERING THE PURCHASE OF THE SERIES 2023B BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE SERIES 2023B BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Certain Tax Consequences to U.S. Bondholders

As used herein “U.S. Bondholder” means a beneficial owner of a Series 2023B Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust).

Interest on the Series 2023B Bonds

A U.S. Bondholder generally will be required to include as ordinary interest income any stated interest payments in income in accordance with its method of accounting for U.S. federal income tax purposes.

Original Issue Discount

If the Issue Price of the Series 2023B Bonds of any stated maturity is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the Series 2023B Bonds of such maturity will be treated as being issued with “original issue discount.” The amount of the original issue discount will equal the excess of the principal amount payable on such Series 2023B Bonds at maturity over the Issue Price, and the amount of the original issue discount on such Series 2023B Bonds will be amortized over the life of the Series 2023B Bonds using the “constant yield method” provided in the U.S. Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Series 2023B Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of such Series 2023B Bonds that exceeds actual cash interest payments to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on such Series 2023B Bonds each taxable year will be reported annually to the Service and to the beneficial owners. The portion of the original issue discount included in each beneficial owner’s gross income while the beneficial owner holds such Bonds will increase the adjusted tax basis of such Series 2023B Bonds in the hands of such beneficial owner.

Premium

If the Issue Price of the Series 2023B Bonds of any stated maturity is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased such Series 2023B Bond with “amortizable bond premium” equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of such Series 2023B Bond and may offset interest otherwise required to be included in respect of such Series 2023B Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on such Series 2023B Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of such Series 2023B Bond. However, if such Series 2023B Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the U.S. Treasury Regulations which could result in a deferral of the amortization of some Series 2023B Bond premium until later in the term of such Series 2023B Bond. Any election to amortize Series 2023B Bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the Service.

Disposition of the Series 2023B Bonds

A U.S. Bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Series 2023B Bond. This gain or loss will equal the difference between the U.S. Bondholder's adjusted tax basis in the Series 2023B Bond and the amount realized (excluding any proceeds attributable to accrued but unpaid stated interest which will be recognized as ordinary interest income to the extent any such Bondholder has not previously included such amounts in income) by the Bondholder. A U.S. Bondholder's adjusted tax basis in the Series 2023B Bonds will generally equal the amount the U.S. Bondholder paid for the Series 2023B Bonds increased by any original issue discount previously included in the Bondholder's income and decreased by the amount of the Series 2023B Bond premium that has been previously amortized. The gain or loss generally will be long-term capital gain or loss if the Bondholder held the Series 2023B Bonds for more than one year at the time of the sale, redemption, exchange, retirement or other taxable disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

Information Reporting and Backup Withholding

Information reporting will apply to payments of principal and interest made by the Authority on, or the proceeds of the sale or other disposition of, the Series 2023B Bonds with respect to U.S. Bondholders (unless such holder is an exempt recipient such as a corporation), and backup withholding may apply unless the recipient of such payment provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against the U.S. Bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the U.S. Bondholder's actual U.S. federal income tax liabilities provided the required information is timely provided to the Service.

Additional Tax on Investment Income

An additional 3.8% net investment income tax, or the "NIIT," is imposed on the "net investment income" of certain U.S. Bondholders who are individuals and on the undistributed "net investment income" of certain estates and trusts, to the extent the sum of net investment income and other modified adjusted gross income exceeds specified dollar amounts. Among other items, "net investment income" would generally include interest income and net gain from the disposition of property, such as the Bonds, less certain deductions. ***U.S. Bondholders should consult their tax advisors with respect to the tax consequences of the NIIT.***

Certain Tax Consequences to Non-U.S. Bondholders

As used herein, a "non-U.S. Bondholder" means a beneficial owner of Series 2023B Bonds that is an individual, corporation, estate or trust that is not a U.S. Bondholder.

Interest on the Bonds-Portfolio Interest

Subject to the discussions below under the headings "—Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance," payments to a non-U.S. Bondholder of interest on the Series 2023B Bonds generally will be exempt from withholding of U.S. federal tax under the "portfolio interest" exemption if the non-U.S. Bondholder properly certifies as to the non-U.S. Bondholder's foreign status as described below, and that:

- the non-U.S. Bondholder does not own, actually or constructively, 10% or more of the Authority's voting stock;
- the non-U.S. Bondholder is not a "controlled foreign corporation" for U.S. federal income tax purposes that is related to the Authority (actually or constructively); and

- the non-U.S. Bondholder is not a bank whose receipt of interest on the Series 2023B Bonds is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of such Bondholder's trade or business.

The foregoing exemption from withholding tax will not apply unless (i) the non-U.S. Bondholder provides his, her or its name and address on an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form), and certifies under penalties of perjury, that such holder is not a U.S. person, (ii) a financial institution holding the Bonds on a non-U.S. Bondholder's behalf certifies, under penalties of perjury, that it has received an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form) from such holder and provides the Trustee with a copy, or (iii) the non-U.S. Bondholder holds their Series 2023B Bonds directly through a "qualified intermediary," and the qualified intermediary has sufficient information in its files indicating that such holder is not a U.S. Bondholder.

If a non-U.S. Bondholder cannot satisfy the requirements described above, payments of principal and interest made to such holder will be subject to the 30% U.S. federal withholding tax, unless such non-U.S. Bondholder provides the Trustee with a properly executed (a) IRS Form W-8BEN or IRS Form W-8BEN-E or successor form claiming an exemption from or a reduction of withholding under an applicable tax treaty or (b) IRS Form W-8ECI (or successor form) stating that interest paid on the Series 2023B Bonds is not subject to withholding tax because it is effectively connected with such non-U.S. Bondholder's conduct of a trade or business in the United States.

If a non-U.S. Bondholder is engaged in an active trade or business in the United States and interest on the Series 2023B Bonds is effectively connected with the active conduct of that trade or business (and, in the case of an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by such holder), such non-U.S. Bondholder will be subject to U.S. federal income tax on the interest on a net income basis (although exempt from the 30% withholding tax) in the same manner as if such non-U.S. Bondholder were a U.S. person as defined under the Code. In addition, if a non-U.S. Bondholder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of such holder's earnings and profits for the taxable year, subject to certain adjustments, including earnings and profits from an investment in the Series 2023B Bonds, that is effectively connected with the active conduct by such non-U.S. Bondholder of a trade or business in the United States.

Disposition of the Bonds

Subject to the discussions below under the headings "—Information Reporting and Backup Withholding" and "—Foreign Account Tax Compliance," a non-U.S. Bondholder generally will not be subject to U.S. federal income tax on any gain realized on the sale, redemption, exchange, retirement or other taxable disposition of a Bond unless:

- the gain is effectively connected with the conduct by the non-U.S. Bondholder of a U.S. trade or business (and, if required by an applicable income tax treaty, is treated as attributable to a permanent establishment maintained by the Bondholder in the United States);
- the non-U.S. Bondholder is a nonresident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met;
- the gain represents accrued interest, in which case the rules for taxation of interest would apply.

If a non-U.S. Bondholder is described in the first bullet point above, the non-U.S. Bondholder generally will be subject to U.S. federal income tax in the same manner as a U.S. Bondholder. If a non-U.S. Bondholder is described in the second bullet point above, the Bondholder generally will be subject to U.S. federal income tax at a flat rate of 30% or lower applicable treaty rate on the gain derived from the sale or other disposition, which may be offset by U.S. source capital losses.

Information Reporting and Backup Withholding

Payments to non-U.S. Bondholders of interest on their Series 2023B Bonds and any amounts withheld from such payments generally will be reported to the Service and such holder. Backup withholding will not apply to payments of principal and interest on the Series 2023B Bonds if the non-U.S. Bondholder certifies as to his, her or its non-U.S.

Bondholder status on an IRS Form W-8BEN or IRS Form W-8BEN-E (or successor form) under penalties of perjury or such non-U.S. Bondholder otherwise qualifies for an exemption (provided that neither the Authority nor its agent, if any, know or have reason to know that such Bondholder is a U.S. person or that the conditions of any other exemptions are not in fact satisfied).

The payment of the proceeds of the disposition of Series 2023B Bonds to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and backup withholding unless a non-U.S. Bondholder provides the certification described above or such Bondholder otherwise qualifies for an exemption. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against the non-U.S. Bondholder's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the non-U.S. Bondholder's actual U.S. federal income tax liabilities provided the required information is timely provided to the Service.

Foreign Account Tax Compliance

Pursuant to the Foreign Account Tax Compliance Act ("FATCA"), withholding at a rate of 30% generally will be required in certain circumstances on payments of interest in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition (including payments of principal) of, Series 2023B Bonds held by or through certain foreign financial institutions (including investment funds) that do not qualify for an exemption from these rules, unless the institution either (i) enters into, and complies with, an agreement with the Service to undertake certain diligence and to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold 30% on certain payments, or (ii) if required under an intergovernmental agreement between the United States and an applicable foreign country, undertakes such diligence and reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury Regulations or other guidance, may modify these requirements. Accordingly, the entity through which the Series 2023B Bonds are held will affect the determination of whether such withholding is required. Similarly, in certain circumstances, payments of interest in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, Series 2023B Bonds held by or through a non-financial foreign entity that does not qualify under certain exemptions generally will be subject to withholding at a rate of 30%, unless such entity either (a) certifies that such entity does not have any "substantial United States owners" or (b) provides certain information regarding the entity's "substantial United States owners," which will be provided to the Service, as required. Prospective Bondholders should consult their tax advisors regarding the possible implications of these rules on their investment in the Series 2023B Bonds.

OTHER INFORMATION

Ratings

The Series 2023 Bonds have been rated "A1" by Moody's Investors Service, Inc. ("Moody's") and "AA+" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Neither the Underwriters nor the Authority has undertaken any responsibility to bring to the attention of the holders of the Series 2023 Bonds any proposed revision or withdrawal of the ratings of the Series 2023 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Series 2023 Bonds.

Litigation

It is the opinion of the Authority's staff that there is no pending litigation contesting the issuance of the Series 2023 Bonds or with respect to the Authority that would have a material adverse financial impact upon the Authority or the Project.

Registration and Qualification of Bonds for Sale

The sale of the Series 2023 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2023 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2023 Bonds been qualified under the securities acts of any jurisdiction. The Authority assumes no responsibility for qualification of the Series 2023 Bonds under the securities laws of any jurisdiction in which the Series 2023 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds on Texas

Under Texas law, the Series 2023 Bonds are legal and authorized investments for insurance companies, fiduciaries or trustees, and for the sinking fund of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Series 2023 Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Series 2023 Bonds may have to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The Authority has not reviewed the laws in other states to determine whether the Series 2023 Bonds are legal investments for various institutions in those states.

The Authority has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Series 2023 Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Series 2023 Bonds. The Authority has made no investigation of any other laws, rules, regulations, or investment criteria that might affect the suitability of the Series 2023 Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Series 2023 Bonds.

Legal Matters

The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Series 2023 Bonds. The transcript will include the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bonds and to the effect that the Series 2023 Bonds are valid and legally binding special obligations of the Authority, and based upon examination of such transcript of certified proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2023A Bonds will be excludable from gross income of the holders for federal income tax purposes under existing law and the Series 2023A Bonds are not private activity bonds under the Internal Revenue Code of 1986, subject to the matters described under “Tax Matters” herein, including alternative minimum tax consequences for corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Series 2023 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Series 2023 Bonds will also be furnished.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under “THE SERIES 2023 BONDS,” “SELECTED PROVISIONS OF THE WATER FACILITIES FINANCING AGREEMENT,” “THE RESOLUTION,” “CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY” (except for the subcaption “Compliance with Prior Undertakings” as to which no opinion is expressed), “CONTINUING DISCLOSURE OF INFORMATION OF THE CITY OF LEAGUE CITY” (except for the subcaption “Compliance with Prior Undertakings” as to which no opinion is expressed) and “CONTINUING DISCLOSURE OF INFORMATION OF GC WCID No. 12” to determine whether such information is an accurate and fair description of the provisions of the Resolution and the Water Facilities Financing Agreement and the continuing disclosure agreement between the City and the Authority and between the District and the Authority, additionally, such firm has reviewed the information appearing under the captions and subcaptions “TAX MATTERS,” “TAX MATTERS – TAXABLE BONDS,” “OTHER INFORMATION - Legal Matters,” “OTHER

INFORMATION – Registration and Qualification of Bonds For Sale” and “OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas” solely to determine if such information fairly and accurately describe the laws and legal issues addressed therein. The various legal opinions to be delivered concurrently with the delivery of the Series 2023 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Financial Advisor

Post Oak Municipal Advisors LLC is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2023 Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2023 Bonds is contingent upon the issuance and delivery of the Series 2023 Bonds. Post Oak Municipal Advisors LLC, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2023 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

Authenticity of Financial Data and Other Information

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2023A Bonds from the Authority at an Underwriters’ discount of \$121,952.54 from the initial offering price to the public. The Underwriters will be obligated to purchase all of such Series 2023A Bonds if any of such Series 2023A Bonds are purchased.

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2023B Bonds from the Authority at an Underwriters’ discount of \$37,893.37 from the initial offering price to the public. The Underwriters will be obligated to purchase all of such Series 2023B Bonds if any of such Series 2023B Bonds are purchased.

The Series 2023 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2023 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2023 Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Series 2023 Bonds are not deposits of any bank, and are not insured by the Federal Deposit Insurance Corporation.

Authorization of Official Statement

The Resolution authorizing the issuance of the Series 2023 Bonds authorized the General Manager or Assistant General Manager of the Authority to approve any Official Statement and any supplement thereto relating to the Series 2023 Bonds. The bond purchase agreement to be executed by the General Manager or Assistant General Manager of the Authority and the Underwriters approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Series 2023 Bonds by the Underwriters.

Forward-Looking Statements

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

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

CONTINUING DISCLOSURE OF INFORMATION OF THE AUTHORITY

In the Resolution, the Authority has made the following agreement for the benefit of the holders and beneficial owners of the Series 2023 Bonds. The Authority is required to observe the agreement for so long as the Series 2023 Bonds are outstanding. Under the agreement, the Authority is obligated to provide certain updated financial information and operating data annually with respect to the Authority, and timely notice of specified events, to the Municipal Securities Rule Making Board (the "MSRB"). Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The Authority shall provide annually to the MSRB, (i) within six (6) months after the end of each fiscal year of the Authority ending in and after 2023, financial information and operating data with respect to the Authority of the general type included in the Official Statement, being the information included in Tables 1-6 and Appendix C, and (ii) if not provided as part of such financial information and operating data, audited financial statements of the Authority, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the notes to the financial statements for the most recently concluded fiscal year, and (ii) audited, if the Authority commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Authority shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document, including an official statement or other

offering document, if it is available to the public on the MSRB's internet website or has been filed with the SEC. The financial information or operating data shall be provided in an electronic format as prescribed by the MSRB and shall be linked to the CUSIP numbers for the Series 2023 Bonds.

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

Event Notices

The Authority shall notify the MSRB, in a timely manner, but not later than 10 business days, after the occurrence of the event of any of the following events with respect to the Series 2023 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves;
- (iv) Unscheduled draws on credit enhancements;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2023 Bonds, or other events affecting the tax status of the Series 2023 Bonds;
- (vii) Modifications to rights of bondholders;
- (viii) Bond calls and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Series 2023 Bonds;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the Authority. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (xiv) Appointment of a successor or additional trustee or the change of the name of a Trustee;

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

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

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

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

Limitations and Amendments

The Authority has agreed to provide updated information regarding the Authority and to provide notices of material events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2023 Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement.

The provisions of this continuing disclosure agreement may be amended by the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, but only if (1) the provisions the continuing disclosure agreement, as so amended, would have permitted an Underwriters to purchase or sell Series 2023 Bonds in the primary offering of the Series 2023 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Resolution that authorize such an amendment) of the outstanding Series 2023 Bonds consent to such amendment or (B) a person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Series 2023 Bonds. The Authority may also repeal or amend the provisions of this continuing disclosure agreement if the Securities and Exchange Commission amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Authority also may amend the provisions of this continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an Underwriters from lawfully purchasing or selling the Series 2023 Bonds in the primary offering of the Series 2023 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Authority so amends the provisions of this continuing disclosure agreement, the Authority shall include with any amended financial information or operating data next provided in accordance with this continuing disclosure agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance With Prior Undertakings

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

CONTINUING DISCLOSURE OF INFORMATION OF THE CITY OF LEAGUE CITY

The Authority and the City of League City (the “City”) have entered into a continuing disclosure agreement, as amended from time to time (the “Disclosure Agreement”) pursuant to which the City has made the following agreement for the benefit of the holders and beneficial owners of the Series 2023 Bonds. The City is required to observe the agreement for so long as the Series 2023 Bonds are outstanding. Under the Disclosure Agreement, the City is obligated to provide certain updated financial information and operating data annually with respect to the City, and timely notice of specified material events, to the MSRB. Information will be available free of charge via EMMA system at www.emma.msrb.org.

Annual Reports

The City shall provide annually to the MSRB (with a copy to the Authority) within six (6) months after the end of each fiscal year of the City ending in and after 2023, financial information and operating data with respect to the City of the general type included in the Official Statement in Appendix A and the financial statements of the City if audited financial statements of the City are then available. If not provided as part of such financial information and operating data, audited financial statements of the City shall be provided, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded fiscal year, or such other accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document, including an official statement or other offering document, if it is available to the public on the MSRB’s internet website or has been filed with the SEC. The financial information or operating data shall be provided in an electronic format as prescribed by the MSRB and shall be linked to the CUSIP numbers for the Series 2023 Bonds.

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

Event Notices

The City shall notify the MSRB, in a timely manner, but not later than 10 business days, after the occurrence of the event of any of the following events with respect to the Series 2023 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves;
- (iv) Unscheduled draws on credit enhancements;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2023 Bonds, or other events affecting the tax status of the Series 2023 Bonds;

- (vii) Modifications to rights of bondholders;
- (viii) Bond calls and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Series 2023 Bonds;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
- (xiv) Appointment of a successor or additional trustee or the change of the name of a Trustee;
- (xv) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City; and
- (xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City.

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

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

Limitations and Amendments

The City has agreed to provide updated information regarding the City and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2023 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The provisions of this Disclosure Agreement may be amended by the City and the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City or the Authority, but only if (1) the provisions of the Disclosure

Agreement, as so amended, would have permitted an Underwriters to purchase or sell Series 2023 Bonds in the primary offering of the Series 2023 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the owners of a majority in aggregate principal amount of the outstanding Series 2023 Bonds consent to such amendment or (B) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the owners and beneficial owners of the Series 2023 Bonds. The City and the Authority may also repeal or amend the provisions of the Disclosure Agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City and the Authority also may amend the provisions of the Disclosure Agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an Underwriters from lawfully purchasing or selling the Series 2023 Bonds in the primary offering of the Series 2023 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City and the Authority so amend the provisions of the Disclosure Agreement, the City shall include with any amended financial information or operating data next provided in accordance with the Disclosure Agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance With Prior Undertakings

The City became obligated to file annual reports with the MSRB through its electronic submission system EMMA in the Gulf Coast Water Authority Contract Revenue Bonds (City of League City Project – Southeast Transmission Line) Series 2021 (the “2021 GCWA Bonds”) issued on December 1, 2021. The City’s fiscal year ended 2021 annual financial information was filed in a timely manner however, the CUSIP numbers of the 2021 GCWA Bonds were not included in those filings. The 2021 GCWA Bonds CUSIP numbers have been linked to the fiscal year ended 2021 filings and a notice of late filing has been filed. The City has implemented procedures to ensure timely filing of all future financial information.

The City failed to timely file an event notice for an incurrence of a financial obligation when it entered into that certain Fourth Amended and Restated Water Supply Contract with Gulf Coast Water Authority relating to the sale of the 2021 GCWA Bonds. The City filed a notice of late filing of the incurrence of such financial obligation on May 5, 2022.

[Remainder of this page intentionally left blank]

CONTINUING DISCLOSURE OF INFORMATION OF GC WCID NO. 12

The Authority and GC WCID No. 12 have entered into a continuing disclosure agreement, as amended from time to time (the “Disclosure Agreement”) pursuant to which GC WCID No. 12 has made the following agreement for the benefit of the holders and beneficial owners of the Series 2023 Bonds. GC WCID No. 12 is required to observe the agreement for so long as the Series 2023 Bonds are outstanding. Under the Disclosure Agreement, GC WCID No. 12 is obligated to provide certain updated financial information and operating data annually with respect to the City, and timely notice of specified material events, to the MSRB. Information will be available free of charge via EMMA system at www.emma.msrb.org.

Annual Reports

GC WCID No. 12 shall provide annually to the MSRB (with a copy to the Authority) within six (6) months after the end of each fiscal year of GC WCID No. 12 ending in or after 2023, financial information and operating data with respect to GC WCID No. 12 of the general type included in the Official Statement in Appendix B and the financial statements of GC WCID No. 12 if audited financial statements of GC WCID No. 12 are then available. If not provided as part of such financial information and operating data, audited financial statements of GC WCID No. 12 shall be provided, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded fiscal year, or such other accounting principles as GC WCID No. 12 may be required to employ, from time to time, by State law or regulation, and (ii) audited, if GC WCID No. 12 commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then GC WCID No. 12 shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document, including an official statement or other offering document, if it is available to the public on the MSRB’s internet website or has been filed with the SEC. The financial information or operating data shall be provided in an electronic format as prescribed by the MSRB and shall be linked to the CUSIP numbers for the Series 2023 Bonds.

GC WCID No. 12 current fiscal year end is December 31. Accordingly, it must provide updated information by the last day of June in each year, unless GC WCID No. 12 changes its fiscal year. If GC WCID No. 12 changes its fiscal year, GC WCID No. 12 will notify the MSRB of the change prior to the next date by which GC WCID No. 12 otherwise would be required to provide financial information and operating data pursuant to this Section.

Event Notices

GC WCID No. 12 shall notify the MSRB, in a timely manner, but not later than 10 business days, after the occurrence of the event of any of the following events with respect to the Series 2023 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves;
- (iv) Unscheduled draws on credit enhancements;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or

determinations with respect to the tax status of the Series 2023 Bonds, or other events affecting the tax status of the Series 2023 Bonds;

- (vii) Modifications to rights of bondholders;
- (viii) Bond calls and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Series 2023 Bonds;
- (xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of GC WCID No. 12. For purposes of this clause (xii), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for GC WCID No. 12 in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of GC WCID No. 12, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of GC WCID No. 12;

(xiii) The consummation of a merger, consolidation, or acquisition involving GC WCID No. 12 or the sale of all or substantially all of the assets of GC WCID No. 12, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

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

(xv) Incurrence of a Financial Obligation of GC WCID No. 12, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of GC WCID No. 12; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of GC WCID No. 12.

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

GC WCID No. 12 shall notify the MSRB, in an electronic format, as prescribed by the MSRB, in a timely manner, of any failure by GC WCID No. 12 to provide their financial information or operating data in accordance with its Disclosure Agreement by the time required.

Limitations and Amendments

GC WCID No. 12 has agreed to provide updated information regarding GC WCID No. 12 and to provide notices of material events only as described above. GC WCID No. 12 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. GC WCID No. 12 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. GC WCID No. 12 disclaims any contractual or tort liability for damages resulting in whole or in part from any

breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2023 Bonds may seek a writ of mandamus to compel GC WCID No. 12 to comply with its agreement.

The provisions of this Disclosure Agreement may be amended by GC WCID No. 12 and the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of GC WCID No. 12 or the Authority, but only if (1) the provisions of the Disclosure Agreement, as so amended, would have permitted an Underwriters to purchase or sell Series 2023 Bonds in the primary offering of the Series 2023 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the owners of a majority in aggregate principal amount of the outstanding Series 2023 Bonds consent to such amendment or (B) a person that is unaffiliated with GC WCID No. 12 (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the owners and beneficial owners of the Series 2023 Bonds. GC WCID No. 12 and the Authority may also repeal or amend the provisions of the Disclosure Agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and GC WCID No. 12 and the Authority also may amend the provisions of the Disclosure Agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an Underwriters from lawfully purchasing or selling the Series 2023 Bonds in the primary offering of the Series 2023 Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City and GC WCID No. 12 so amend the provisions of the Disclosure Agreement, GC WCID No. 12 shall include with any amended financial information or operating data next provided in accordance with the Disclosure Agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

BONDOWNERS' REMEDIES

No lien has been created on any property of the Authority to secure payment of principal or interest on the Series 2023 Bonds, and the Owners of the Series 2023 Bonds have no right in the event of default, to attach or dispose of the projects or any property of the City or the Authority (other than certain funds as specified in the Resolution). No provision has been made for the appointment of a trustee to protect the rights of Bondowners, to provide for the acceleration of maturity, or for the operation of the Authority's system by an independent third party in the event of default. Accordingly, the only practical remedy in the event of default may be a mandamus proceeding to compel the Authority to perform its obligations under the Resolution. Such remedy, however, may be impracticable and difficult to enforce, and might need to be invoked periodically because of the unavailability of acceleration. The enforcement of a claim for payment of principal or interest may also be subject to the applicable provisions of the federal bankruptcy laws, other statutes, if any, hereinafter enacted, which might impose constraints on such enforcement, and general principles of equity which permit the exercise of judicial discretion. See "THE RESOLUTION – Default and Remedies."

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF LEAGUE CITY

The City

The City of League City is located in the north central part of Galveston County and part of Harris County five miles south of the city limits of Houston, Texas. The City was incorporated on December 9, 1961 and adopted its Home Rule Charter on March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities. The City is located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and approximately 10 miles from the petrochemical refineries located in Texas City in Galveston County. The National Aeronautics and Space Administration's ("NASA") Johnson Space Center is located just north of the City in Harris County. In addition, residents find employment in the numerous retail and service establishments located in the City and surrounding area. The City's 2023 estimated population is 118,740.

Payment History

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

Waterworks System

The City purchases approximately 90% of its water from the Authority, which supplies, by contract, 22.5 million gallons of water per day from the City of Houston's Southeast Water Purification Plant and an additional 2.544 million gallons of water per day from the Gulf Coast Water Authority's Thomas H. Mackey Water Treatment Plant. The remainder of the City's water is obtained from 8 wells located in the City. The City's water system contains approximately 506 miles of water lines ranging in size from 2" to 42" and presently services approximately 36,240 connections. The City operates the water system. For Fiscal Year 2022, waterworks system operating revenues increased by approximately \$3.9 million or 10% from the prior year, and operating expenses increased by approximately \$1.6 million or 7% from the prior year.

Historical Water Consumption

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Number of Customers	Water Usage (MG)				Total Water and Sewer Sales
			Average Day Usage	Peak Day Usage	Peak Month Usage	Total Usage	
2017	102,635	33,310	11.320	18.342	408.585	4,104.479	\$ 34,241,387
2018	104,857	34,102	12.034	19.586	486.225	4,392.590	37,364,628
2019	106,803	34,617	11.118	17.471	423.743	4,058.064	33,850,775
2020	109,087	35,611	11.664	18.910	468.416	4,257.519	37,540,214
2021	110,467	36,074	11.829	24.625	476.345	4,317.345	39,692,382

⁽¹⁾ Source: The City's Comprehensive Annual Financial Reports.

Enterprise Funds Statement of Net Position

	Fiscal Year Ended September 30,				
	2021	2020	2019	2018	2017
Operating Revenues:					
Charges for Services	\$ 37,961,242	\$ 36,990,951	\$ 34,575,788	\$ 37,257,244	\$ 35,805,577
Other	4,799,063	5,147,900	280,454	107,384	111,594
Total Operating Revenues	<u>42,760,305</u>	<u>42,138,851</u>	<u>34,856,242</u>	<u>37,364,628</u>	<u>35,917,171</u>
Operating Expenses:					
Personnel	6,089,489	6,266,064	5,297,535	5,822,111	5,632,773
Contractual Services	7,276,101	7,039,647	5,648,542	6,266,400	5,761,003
Utilities	1,342,059	1,310,371	1,283,555	1,334,009	1,458,324
Repairs and Maintenance	1,693,346	1,698,178	1,532,563	1,288,233	1,347,449
Other Supplies and Expenses	637,135	759,443	945,265	774,692	708,442
Depreciation	8,109,049	7,889,386	7,648,035	6,996,516	6,266,252
Total Operating Expenses	<u>25,147,179</u>	<u>24,963,089</u>	<u>22,355,495</u>	<u>22,481,961</u>	<u>21,174,243</u>
Operating Income (Loss)	17,613,126	17,175,762	12,500,747	14,882,667	14,742,928
Non-Operating Revenues (Expenses):					
Investment Earnings	120,246	876,314	1,753,961	1,017,809	437,569
Interest Expense	(3,824,773)	(4,290,230)	(4,703,752)	(5,008,224)	(5,211,785)
Intergovernmental	24,790	12,395	-	-	-
Gain (Loss) on Disposal of Capital Assets	10,522	15,725	1,819	5,689	-
Total Non-Operating Revenue (Expenses)	<u>(3,669,215)</u>	<u>(3,385,796)</u>	<u>(2,947,972)</u>	<u>(3,984,726)</u>	<u>(4,774,216)</u>
Income (Loss) Before Transfers	13,943,911	13,789,966	9,552,775	10,897,941	9,968,712
Capital Contributions	1,027,435	4,141,165	6,859,961	9,999,551	12,257,482
Transfers In (Out)	<u>(4,454,257)</u>	<u>(4,511,513)</u>	<u>(3,312,000)</u>	<u>(3,165,089)</u>	<u>(2,553,175)</u>
Change in Net Position	10,517,089	13,419,618	13,100,736	17,732,403	19,673,019
Net Position - Beginning (October 1)	276,304,735	262,885,117	249,784,381	232,892,934	213,219,915
Prior Period Adjustment	(219,672)	-	-	(840,956)	-
Net Position - Ending (September 30)	<u>\$286,602,152</u>	<u>\$276,304,735</u>	<u>\$262,885,117</u>	<u>\$249,784,381</u>	<u>\$232,892,934</u>

Comparative Statement of Revenues and Expenses; Customer Count

	Fiscal Year Ended September 30,				
	2021	2020	2019	2018	2017
Revenues:					
Charges for Services	\$ 37,961,242	\$ 36,990,951	\$ 34,575,788	\$ 37,257,244	\$ 35,805,577
Interest Earned	120,246	876,314	1,753,961	1,017,809	437,569
Gain on Sale of Capital Assets	10,522	15,725	1,819	5,689	-
Other Revenues	4,823,853	5,160,295	280,454	107,384	111,594
Total Revenues	<u>42,915,863</u>	<u>43,043,285</u>	<u>36,612,022</u>	<u>38,388,126</u>	<u>36,354,740</u>
Operating Expenses:					
Personnel	6,089,489	6,266,064	5,297,535	5,822,111	5,632,773
Utilities	1,342,059	1,310,371	1,283,555	1,334,009	1,458,324
Repairs and Maintenance	1,693,346	1,698,178	1,532,563	1,288,233	1,347,449
Supplies	637,135	759,443	945,265	774,692	708,442
Contractual Services	7,276,101	7,039,647	5,648,542	6,266,400	5,761,003
Gulf Coast Water Authority Debt Service ⁽¹⁾	336,263	336,197	334,627	337,345	335,331
	<u>17,374,393</u>	<u>17,409,900</u>	<u>15,042,087</u>	<u>15,822,790</u>	<u>15,243,322</u>
Net Revenue From Operations	<u>\$ 25,541,470</u>	<u>\$ 25,633,385</u>	<u>\$ 21,569,935</u>	<u>\$ 22,565,336</u>	<u>\$ 21,111,418</u>
Water Customers	36,074	35,611	34,617	34,102	33,310

⁽¹⁾ Contract Revenue Bonds issued by the Authority that are treated as an operating expense of the City's utility system.

Monthly Water Rates (effective April 2022):

<u>Base Rate:</u>		<u>Volume Charge:</u>	
3/4 inch meter	\$7.71	1 - 3,000 gallons	\$2.12 per 1,000 gallons
1 inch meter	\$7.71	3,001 - 10,000 gallons	\$5.95 per 1,000 gallons
1 1/2 inch meter	\$12.00	10,001 - 25,000 gallons	\$7.57 per 1,000 gallons
2 inch meter	\$15.00	25,001 gallons and above	\$9.20 per 1,000 gallons

Monthly Wastewater Rates (effective April 2022):

<u>Base Rate:</u>		<u>Volume Charge:</u>	
3/4 inch meter and above	\$14.73	0 - 3,000 gallons	\$2.34 per 1,000 gallons
		3,001 - 10,000 gallons	\$4.90 per 1,000 gallons
		(capped at 10,000 gallons for residential accounts)	

Debt Service Coverage

	Fiscal Year Ended September 30,				
	2021	2020	2019	2018	2017
Gross Revenues ⁽¹⁾	\$ 42,915,863	\$43,043,285	\$ 36,612,022	\$38,388,126	\$36,354,740
Operating Expenses ⁽²⁾	(25,147,179)	(24,963,089)	(22,355,495)	(22,481,961)	(21,174,243)
Net Revenues Available for Debt Service	<u>\$ 17,768,684</u>	<u>\$ 18,080,196</u>	<u>\$ 14,256,527</u>	<u>\$ 15,906,165</u>	<u>\$ 15,180,497</u>
Debt Service Requirements: ⁽³⁾					
Principal	\$ 179,570	\$ 319,070	\$ 620,000	\$ 2,155,000	\$ 2,125,000
Interest	137,927	16,277	361,244	412,925	492,100
Total	<u>\$ 317,496</u>	<u>\$ 335,347</u>	<u>\$ 981,244</u>	<u>\$ 2,567,925</u>	<u>\$ 2,617,100</u>
Coverage of Debt Service Requirements	55.97x	53.91x	14.53x	6.19x	5.80x

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

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

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

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

Ten Largest Water Customers (Based on Gallons Consumed)

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

APPENDIX B

**GENERAL INFORMATION REGARDING
GALVESTON COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 12**

Summary of the General Fund (depreciation removed)

	Fiscal Year Ended December 31,				
	2021	2020	2019	2018	2017
<u>Revenues</u>					
Water Service	\$ 1,660,555	\$ 1,526,249	\$ 1,041,132	\$ 1,267,373	\$ 1,170,279
Wastewater Service	1,370,039	1,301,833	997,019	1,009,299	968,205
Fire Assessment	641,029	876,333	819,735	759,327	573,463
Surcharges and Other Fees	347,541	188,531	71,341	63,853	81,107
Penalty and Interest	40,453	21,413	21,346	21,231	17,659
Tap Connection and Inspection Fees	222,287	107,855	109,039	82,092	94,203
Connection/Capital Recovery Fees	2,600,000	1,209,868	-	-	-
Sale of Assets	775,705	-	-	-	-
Reimbursement from Kemah VFD	38,750	330,000	-	-	-
Investment and Miscellaneous Revenues	9,172	72,016	48,251	19,386	12,865
Total Revenues	7,705,531	5,634,098	3,107,863	3,222,561	2,917,781
<u>Expenditures</u>					
Professional Fees	359,909	148,225	129,518	142,671	177,506
Contracted and Purchased Services	1,138,409	1,118,569	1,141,970	909,182	901,595
Utilities	180,254	179,460	162,569	169,784	188,785
Fire Service	665,689	850,551	792,269	728,208	566,889
Repairs and Maintenance	847,471	757,949	1,052,849	579,277	389,620
Other	377,300	404,102	459,392	356,051	354,907
Capital Outlay	1,725,654	2,275,264	1,758,943	200,000	347,001
Debt Service - Note Principal	56,054	54,414	52,839	51,284	49,823
Debt Service - Note Interest	3,448	5,088	6,663	8,218	9,679
Debt Service - Capital Lease Principal	56,864	54,693	52,604	-	-
Debt Service - Capital Lease Interest	29,237	29,237	31,326	-	-
Total Expenditures	5,440,289	5,877,552	5,640,942	3,144,675	2,985,805
Revenues Over (Under) Expenditures	\$ 2,265,242	\$ (243,454)	\$ (2,533,079)	\$ 77,886	\$ (68,024)
<u>Other Financing Sources (Uses)</u>					
Transfers In (Out)	\$ -	\$ -	\$ (336,403)	\$ 440,880	\$ -
Contributions - Note and Lease Payments	145,603	143,432	143,432	200,000	-
Capital Contributions/Developer Advances	193,554	3,978,452	1,678,495	-	-
Other Financing Sources (Uses)	339,157	4,121,884	1,485,524	640,880	-
Net Change in Fund Balance	\$ 2,604,399	\$ 3,878,430	\$ (1,047,555)	\$ 718,766	\$ (68,024)
Beginning Fund Balance	4,830,239	951,809	1,999,364	1,280,598	1,348,622
Ending Fund Balance	\$ 7,434,638	\$ 4,830,239	\$ 951,809	\$ 1,999,364	\$ 1,280,598

Retail Water and Sewer Rates (effective 1/1/2022):

	Water	Wastewater
Minimum charge	\$1.00	\$1.00
First 10,000 gallons	\$6.00/1,000	\$6.00/1,000
Next 10,000 gallons	\$7.00/1,000	\$7.00/1,000
Over 20,000 gallons	\$8.00/1,000	\$8.00/1,000

2022 Certified Assessed Valuation.....	\$ 799,525,754
Total Direct Debt.....	\$ 18,585,000
Ratio of Direct Debt to 2022 Certified Assessed Valuation.....	2.32%
General Operating Fund (as of December 31, 2022).....	\$ 5,877,353 ⁽¹⁾
Debt Service Fund (as of December 31, 2022).....	\$ 2,660,384 ⁽¹⁾
Average Annual Debt Service Requirement (2023-2042).....	\$ 1,208,799
Tax Rate of \$0.16 on 2022 Certified Assessed Valuation at 95% collection produces.....	\$ 1,215,279
Maximum Annual Debt Service Requirement (2030).....	\$ 1,507,656
Tax Rate of \$0.20 on 2022 Certified Assessed Valuation at 95% collection produces.....	\$ 1,519,099
Estimated Population	4,715 ⁽²⁾
Customer Count.....	1,542

⁽¹⁾ Unaudited. Provided by GC WCID No. 12

⁽²⁾ Per Municipal Advisory Council of Texas.

EXHIBIT C

EXCERPTS FROM THE GULF COAST WATER AUTHORITY ANNUAL FINANCIAL REPORT

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Directors
Gulf Coast Water Authority
Texas City, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gulf Coast Water Authority (the "Authority") as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of August 31, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Audit Committee and Board of Directors
Gulf Coast Water Authority

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

To the Audit Committee and Board of Directors
Gulf Coast Water Authority

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The introductory, statistical, and supplementary information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2023, on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.



Houston, Texas
January 19, 2023



Gulf Coast Water Authority

GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Gulf Coast Water Authority (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended August 31, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements.

Financial Highlights

- The Authority's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$179,795,620. Of this amount, \$122,807,946 represents net investment in capital assets; \$2,347,311 is restricted net position and the remaining \$54,640,363 represents unrestricted net position.
- The Authority's total net position increased by \$6,793,870 from \$173,001,750 at the end of the prior year to an ending net position of \$179,795,620 at August 31, 2022. The increase is primarily due to federal grants received in the amount of \$9.7 million.
- Operating expenses for the Authority were \$51,311,102 and were more than operating revenues of \$49,010,434 by \$2,300,668. Non-operating revenues for the Authority exceeded non-operating expenses by \$9,047,678.

Overview of the Financial Statements

The Management Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements which consist of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

The statement of net position presents as of a specific date information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Since the Authority follows enterprise fund accounting and reporting requirements, there is a statement of cash flows included as part of the basic financial statements. The accompanying notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements.

GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis

Net position may serve over time as a useful indicator of a financial statement position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$179,795,620 at the close of the most recent fiscal year.

Net Position (with comparative totals for August 31, 2021)

	2022	2021	Increase / (Decrease)	
			\$	%
Current and other assets	\$ 69,171,013	\$ 75,724,254	\$ (6,553,241)	-8.7%
Capital assets	149,008,564	127,349,150	21,659,414	17.0%
Total Assets	218,179,577	203,073,404	15,106,173	7.4%
Total Deferred Outflows of Resources	1,980,180	2,148,593	(168,413)	-7.8%
Current liabilities	9,697,438	10,190,659	(493,221)	-4.8%
Noncurrent liabilities	25,880,851	20,912,291	4,968,560	23.8%
Total Liabilities	35,578,289	31,102,950	4,475,339	14.4%
Total Deferred Inflows of Resources	4,785,848	1,117,297	3,668,551	328.3%
Net Position:				
Net Investment in capital assets	122,807,946	106,207,914	16,600,032	15.6%
Restricted:				
Debt Service	2,347,311	4,033,640	(1,686,329)	-41.8%
Unrestricted	54,640,363	62,760,196	(8,119,833)	-12.9%
Total Net Position	\$ 179,795,620	\$ 173,001,750	\$ 6,793,870	3.9%

- Current and other assets decreased by approximately \$6.6 million, or 8.7%, primarily due to cash paid for capital projects, offset by increases in grants receivable, long-term receivable for the 2021 Series Contract Revenue Bonds League City SEWPP and net pension asset.
- Capital assets, net of depreciation increased by approximately \$21.7 million, or 17.0%, from the prior year due to capital outlay of approximately \$14.0 million in the Canal Division, \$0.5 million in the Texas City Industrial Division, \$2.0 million in the Water Treatment Plant, \$5.9 million in the Chocolate Bayou Division, and \$6.7 million in Administrative Division. Depreciable capital assets increased by \$42.2 million due to completed projects being transferred from construction in progress. Construction in progress decreased by \$14.2 million from the prior year.
- Current liabilities decreased by approximately \$0.5 million, or 4.8%, due primarily to a decrease in the current portion of long-term debt as a result of the payoff of the 1998 A-B South Project, 1998C Series Texas City Projects and Galveston Project bonds, offset by an increase in customer deposits for the FY23 Water Treatment Plant contract quantity increase, the issuance of the 2021 Series Contract Revenue Bonds for the League City SE Water Purification Plant and accounts payable and accrued liabilities related to ongoing projects at August 31, 2022.
- Noncurrent liabilities increased by approximately \$5.0 million, or 23.8%, from the prior year primarily due to the issuance of the 2021 Series Contract Revenue Bonds and related premiums of \$6.3m for the League City SE Water Purification Plant, GASB 87 lease liability of \$1.9m in the Texas City Industrial Division and \$0.9m in the Water Treatment Plant, offset by a decrease of in the net pension liability of \$1.9 million and reduction in long-term portion of the Texas City Industrial Division bonds.

GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position measures how well annual costs are covered by fees and charges. The Authority does not seek to earn a profit in the long term. However, the Authority must cover its operations, maintenance, and other costs while providing sufficient reserves annually from fees and charges since the Authority does not levy or collect any tax revenue.

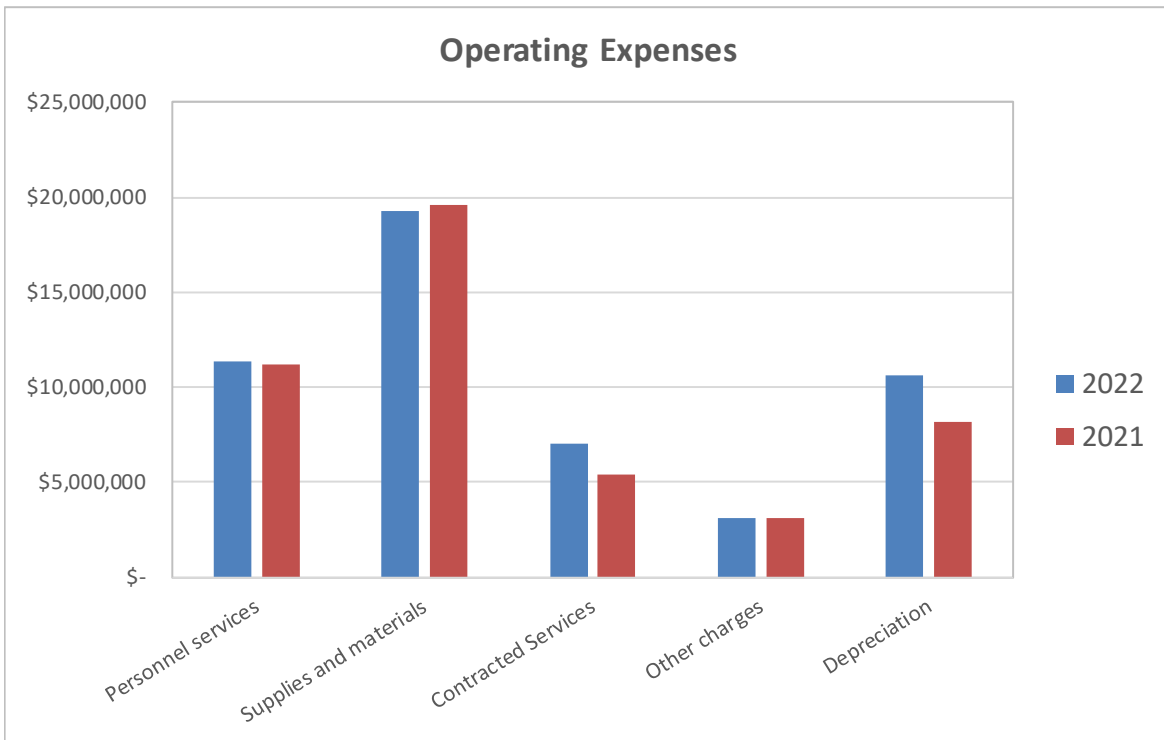
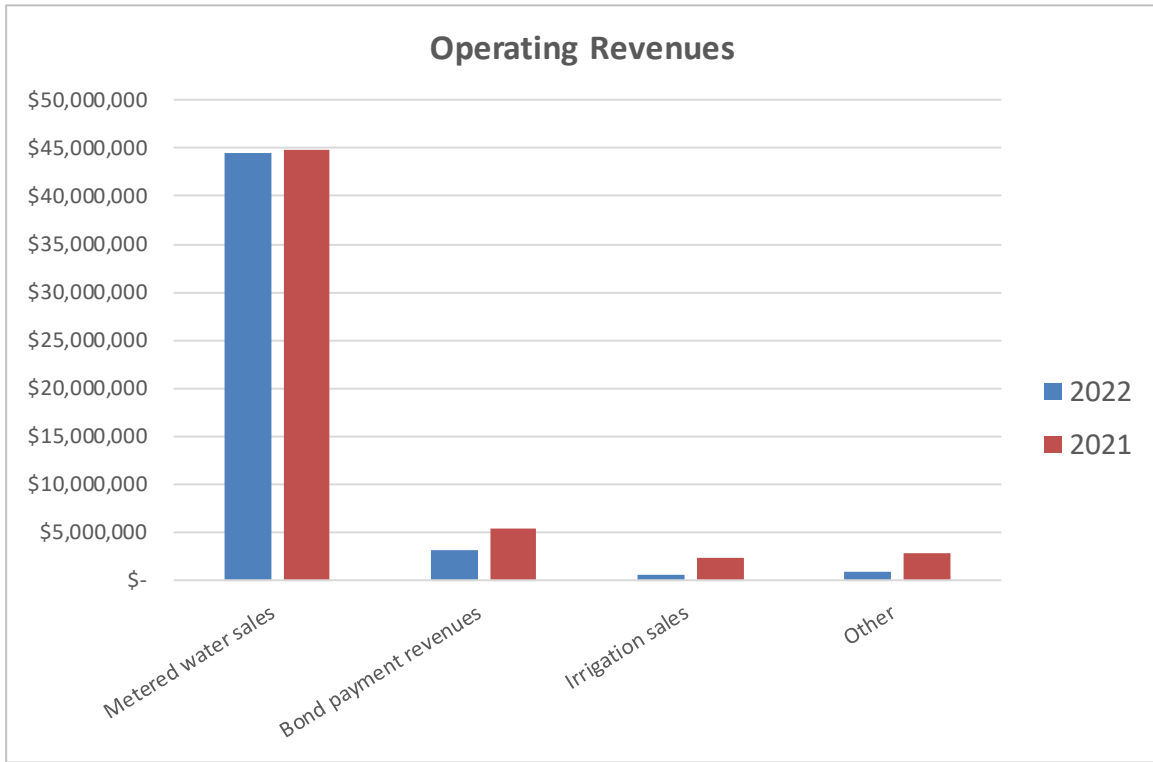
Changes in Net Position- Year Ended August 31, 2022
(With comparative totals for year ended August 31, 2021)

	2022	2021	Increase / (Decrease)	
			\$	%
Operating Revenues:				
Metered water sales	\$ 44,429,312	\$ 44,812,284	\$ (382,972)	-0.9%
Bond payment revenue	3,221,767	5,444,033	(2,222,266)	-40.8%
Irrigation sales	521,241	2,389,603	(1,868,362)	-78.2%
Other	838,114	2,777,093	(1,938,979)	-69.8%
Total Operating Revenues	49,010,434	55,423,013	(6,412,579)	-11.6%
Expenses:				
Personnel services	11,384,999	11,171,554	213,445	1.9%
Supplies and materials	19,244,887	19,590,860	(345,973)	-1.8%
Contracted services	6,993,035	5,407,678	1,585,357	29.3%
Other charges	3,099,013	3,111,410	(12,397)	-0.4%
Depreciation	10,589,168	8,141,008	2,448,160	30.1%
Total Expenses	51,311,102	47,422,510	3,888,592	8.2%
Operating income (loss)	(2,300,668)	8,000,503	(10,301,171)	
Non-operating revenues (expenses)	9,047,678	5,790,003	3,257,675	56.3%
Income (loss) before capital grants and contributions	6,747,010	13,790,506	(7,043,496)	-51.1%
Capital contributions	46,860	977,388	(930,528)	-95.2%
Change in Net Position	6,793,870	14,767,894	(7,974,024)	-54.0%
Beginning Net Position	173,001,750	158,233,856	14,767,894	9.3%
Ending Net Position	\$ 179,795,620	\$ 173,001,750	\$ 6,793,870	3.9%

- Metered water sales decreased by approximately \$0.4 million or 0.9%, primarily due to lower City of Houston recharge costs for the SEWPP.
- Irrigation sales decreased by approximately \$1.9 million, or 78.2%, primarily due to fiscal year 2021 having unusually higher usage as a result of drought conditions.
- Other revenues decreased by approximately \$1.9 million or 69.8%, due to 2021 having \$1.5 million from the TXU for power generation by the Authority back-up generators and lower recharge costs from the City of Houston for the League City SE Water Purification Plant Reservation Fee.
- Personnel services increased by approximately \$0.2 million or 1.9%, due to an increase in personnel costs with the addition of four full-time equivalents when compared to the prior year.
- Supplies and materials decreased by approximately \$0.3 million or 1.8%, due to a decrease in contract water costs from the Southeast Water Purification Plant-League City and Pearland divisions, offset by higher chemical costs at the Thomas Mackey Water Treatment Plant.
- Contracted services increased by approximately \$1.6 million, or 29.3%, primarily due having unusually low power costs in FY21 as a result of revenue share from Power Depot for Winter Storms Uri, higher sediment removal costs, costs associated with the development of a Water Resource Plan, legislative and IT consultants.
- Depreciation expense increased by approximately \$2.4 million or 30.1%, due to approximately \$42.5 million of capital assets being placed into service during the current fiscal year.

GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The following charts illustrate a two-year comparison of the Authority's Operating Revenues and Operating Expenses, respectively.



GULF COAST WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Long-Term Debt

Capital Assets

The Authority's capital assets totaled \$149,008,564 as of August 31, 2022. These capital assets include land; construction in progress; office furniture, fixtures and equipment; other machinery and equipment; automobiles and trucks; buildings; and infrastructure. The total net increase in the Authority's capital assets for the current fiscal year was \$21.7, or 17.0%.

	2022	2021	Increase/(Decrease)	
			\$	%
Land	\$ 2,799,794	\$ 1,987,726	\$ 812,068	40.9%
Construction in progress	34,437,637	48,608,021	(14,170,384)	-29.2%
Infrastructure	282,786,086	241,262,839	41,523,247	17.2%
Buildings	6,035,566	5,951,711	83,855	1.4%
Plant and equipment	10,188,676	9,601,849	586,827	6.1%
Right-to-use leased equipment	3,039,396	-	3,039,396	0.0%
Less accumulated depreciation	(190,278,591)	(180,062,996)	(10,215,595)	5.7%
Total	\$ 149,008,564	\$ 127,349,150	\$ 21,659,414	17.0%

During the current fiscal year, the Authority received \$9.7 in federal grant reimbursements for capital projects. Additional information on the Authority's capital assets can be found in Note 3 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the Authority had long-term debt outstanding of \$27.1 million. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

	2022	2021	Increase/(Decrease)	
			\$	%
Revenue bonds	\$ 26,377,039	\$ 24,368,000	\$ 2,009,039	8.2%
Bond premiums	716,452	173,381	543,071	313.2%
Totals	\$ 27,093,491	\$ 24,541,381	\$ 2,552,110	10.4%

The Authority maintained "AA" ratings from Standard & Poor's and "A1" ratings from Moody's Investors Service for general obligation debt.

Additional information on the Authority's long-term debt can be found in Note 4 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Administrator, 4243 Emmett F Lowry Expressway, Texas City, Texas 77591.



Gulf Coast Water Authority

BASIC FINANCIAL STATEMENTS

GULF COAST WATER AUTHORITY

STATEMENT OF NET POSITION

August 31, 2022

Assets

Current Assets:

Cash and cash equivalents	\$ 8,046,680
Investments	38,953,998
Accounts receivable	9,150,336
Interest receivable	33,180
Prepaid items	578,669
Restricted:	
Investments	<u>3,373,343</u>

Total Current Assets 60,136,206

Noncurrent Assets:

Accounts receivable - due in more than one year	6,559,339
Capital assets not being depreciated	37,237,431
Capital assets, net of accumulated depreciation	111,771,133
Net pension asset	<u>2,475,468</u>

Total Noncurrent Assets 158,043,371

Total Assets 218,179,577

Deferred Outflows of Resources

Pension related	1,922,514
OPEB related	<u>57,666</u>

Total Deferred Outflows of Resources 1,980,180

Liabilities

Current Liabilities:

Accounts payable	4,577,655
Accrued liabilities	301,837
Accrued wages payable	349,159
Accrued interest payable	35,905
Unearned revenue	8
Customer deposits	1,625,000
Bonds payable - due within one year	2,350,854
Compensated absences - due within one year	<u>457,020</u>

Total Current Liabilities 9,697,438

Noncurrent Liabilities:

Due in more than one year:	
Bonds payable	24,742,637
Compensated absences	914,039
Net OPEB liability	<u>224,175</u>

Total Noncurrent Liabilities 25,880,851

Total Liabilities 35,578,289

Deferred Inflows of Resources

Pension related	4,194,192
OPEB related	9,790
Leases	<u>581,866</u>

Total Deferred Inflows of Resources 4,785,848

Net Position

Net investment in capital assets	122,807,946
Restricted for:	
Debt service	2,347,311
Unrestricted	<u>54,640,363</u>

Total Net Position \$ 179,795,620

GULF COAST WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended August 31, 2022

Operating Revenues

Charges for sales and services:

Metered water sales	\$ 44,429,312
Bond payment revenue	3,221,767
Irrigation sales	521,241
Other income	838,114

Total Operating Revenues 49,010,434

Operating Expenses

Personnel services	11,384,999
Supplies and materials	19,244,887
Contractual services	6,993,035
Other charges	3,099,013
Depreciation	10,589,168

Total Operating Expenses 51,311,102

Operating Income (loss) (2,300,668)

Nonoperating Revenues (Expenses)

Investment income (loss)	283,899
Amortization of deferred gains/losses and premiums	235,972
Federal grants and contracts	9,652,657
Gain(loss) on sale of asset	(22,107)
Interest expense	(1,102,743)

Total Nonoperating Revenues (Expenses) 9,047,678

Income (loss) Before Capital Contributions 6,747,010

Capital contributions 46,860

Income (loss) After Capital Contributions 6,793,870

Change in Net Position 6,793,870

Beginning Net Position 173,001,750

Ending Net Position \$ 179,795,620

GULF COAST WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2022

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 52,944,904
Payments to suppliers	(27,560,074)
Payments to employees	(12,391,147)
Net Cash Provided (Used) by Operating Activities	<u>12,993,683</u>
Cash Flows from Noncapital Financing Activities	
Payments received on long-term receivable	913,450
Intergovernmental payment for long-term receivable	(6,085,505)
Proceeds from sale of noncapital bonds	6,726,448
Principal paid on noncapital bonds	(2,208,000)
Interest paid on noncapital bonds	(23,763)
Payment of bond issuance costs	(220,753)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(898,123)</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(29,184,433)
Principal paid on bonds	(4,600,000)
Principal paid on leases	(207,357)
Interest paid on bonds	(778,920)
Interest paid on leases	(80,643)
Lease payments received	31,475
Grants for capital projects	9,652,657
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(25,167,221)</u>
Cash Flows from Investing Activities	
Maturity (purchase) of investments	16,632,461
Interest received	234,136
Net Cash Provided (Used) by Investing Activities	<u>16,866,597</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,794,936
Beginning Cash and Cash Equivalents	<u>4,251,744</u>
Ending Cash and Cash Equivalents	<u>\$ 8,046,680</u>

GULF COAST WATER AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2022

Reconciliation of Operating Income (Loss) to

Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ (2,300,668)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation/amortization	10,589,168
Interest on lease receivable	16,583
(Increase) decrease in:	
Accounts receivable	2,417,879
Prepaid items	(441,723)
Increase (decrease) in:	
Accounts payable	2,055,961
Accrued liabilities	191,969
Wages payable	78,810
Compensated absences payable	(49,461)
Unearned revenue	8
Customer deposits	1,500,000
Deferred inflows - leases	(29,346)
Pension/OPEB related amounts	(1,035,497)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 12,993,683</u></u>

Noncash Investing, Capital, and Financing Activities

Gain (loss) on disposal of capital assets	\$ (22,107)
Contribution of capital assets	46,860



Gulf Coast Water Authority

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Gulf Coast Water Authority (the "Authority"), a governmental agency and political subdivision of the State of Texas, conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements:

A. Reporting Entity

The Authority is a Conservation and Reclamation District and political subdivision of the State of Texas (the "State"), created and functioning under Article XVI, Section 59, of the Texas Constitution, pursuant to Chapter 712, Acts of the 59th Legislature, Regular Session, 1965, as amended (the "Act"). The Act created the Authority to conserve, store, transport, treat and purify, distribute, well and deliver water, both surface and underground, to persons, corporations, both public and private, political subdivisions of the State and others, and to purchase, construct or lease all property, works and facilities, both within and without the Authority, necessary or useful for such purposes. It is also authorized to acquire water supplies from sources within or without its boundaries and to sell, transport and deliver water to customers situated within or without its boundaries and to acquire all properties and facilities necessary or useful for such purposes. The Act conferred no water rights on the Authority and it is not authorized to make any regulation of the withdrawal of underground water. The Authority may make, construct, or otherwise acquire improvements either within or without its boundaries necessary to carry out its powers and authority and to exercise the power of eminent domain for such purposes, except the Authority does not have the power of eminent domain as to all or any part of the water supply, property, works or facilities of any private person or persons, or of any private or public corporation or association engaged in the business of supplying water in Galveston County, Texas, to any class of consumers for any use as of the effective date of enabling legislation. However, the Authority may acquire necessary crossing easements and rights of way. The powers, rights, privileges, and functions conferred upon the Authority are subject to the continuing rights of supervision by the State, which is exercised by the Texas Department of Water Resources including approval of its projects. The Act granted the Authority none of the powers conferred by General Law for the purposes of the collection, transportation, processing, disposal and control of domestic, industrial or communal wastes, and the gathering, conducting, directing and controlling of local storm waters, or other local harmful excesses of water. Furthermore, the Authority has no power to levy taxes but is authorized to issue revenue bonds to provide funds for any and all of the purpose set forth in the Act and to collect related rates and costs.

The Authority is comprised of all of the territory contained within Galveston County, Texas, and its boundaries are the same as and coextensive with the boundaries of Galveston County, Texas. However, its operations are not necessarily limited to the confines of these boundaries.

The Authority is a separate self-supporting governmental unit and is administered by a board of ten directors. Five directors are appointed by the Commissioners Court of Galveston County, one of whom represents municipal interests, two of whom represent industrial interests, and two of whom represent the county at large. Two directors are appointed by the Fort Bend County Commissioners Court, one of whom represents municipal interests, and one of whom represents the county at large. Three directors are appointed by the Brazoria County Commissioners Court, one of whom represents agricultural interests, one of whom represents municipal interest, and one of whom represents industrial interests. A director appointed to represent municipal or industrial interests must be a customer of, or represent an entity that is a customer of, the Authority.

Appointees serve two-year terms, staggered five (5) one year and five (5) the next. Term of office coincides with the Authority's fiscal year, beginning September 1st.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting

As a single purpose government engaging only in business type activities, the Authority follows enterprise fund accounting. Enterprise Funds have a net income or economic resources measurement focus and are accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned including unbilled water which is accrued. Expenses are recognized at the time the liability is incurred. With this measurement focus, all assets and liabilities associated with the operation of these funds are included in the Statement of Net Position.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

Cash and cash equivalents include amounts in checking, savings, and money market accounts.

D. Investments

Investments with a maturity of less than one year when purchased and local government investment pools are stated at amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

E. Accounts Receivable

Accounts receivable consist of balances due from customers of the various activities of the Authority. An allowance for doubtful accounts is established when necessary to provide an estimate of bad debts charged to revenues. Losses are charged against the allowance when management believes the collectability of a receivable is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of August 31, 2022, no allowance for bad debts is recorded.

F. Capital Assets

Depreciation is provided for in amounts sufficient to relate the cost of the depreciable property to operations on a straight-line basis over their estimated useful lives in the Enterprise Funds. The Authority’s policy is to capitalize assets with an initial cost exceeding \$5,000 and useful life of three years or greater. The useful lives by the type of assets are as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Automobiles and Light Weight Trailers	5 Years
Heavy Equipment, SCADA System, Pumps, and Other Equipment	10 Years
Variable Frequency Drives and Water Meters	15 Years
Bridges, Pressure Reduction Stations, and Elevated Storage Tanks	20 Years
Booster Pump Stations, Check Structures, Clarifiers, and Underdrains	25 Years
Buildings, Pump Stations, Surface Tanks, Siphons, and Water Treatment Plants	30 Years
Right-to-use leased equipment	Shorter of useful life or lease term

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

G. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. It is the deferred amounts related to pension and deferred amounts related to OPEB. The deferred amounts related to pension and OPEB relate differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension and OPEB related changes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The Authority has three items that qualify for reporting in this category. The Authority reports deferred amounts related to pension, deferred amounts related to OPEB, and amounts related to future receipt of lease payments.

H. Pensions and Other Post-Employment Benefits (OPEB)

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

I. Unamortized Bond Discounts and Premiums

Included within long-term debt are unamortized bond discounts and premiums. These discounts and premiums are being amortized over the life of the related obligation on the straight-line method.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

K. Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenses.

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows for pension items, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

M. Date of Management's Review

Subsequent events have been evaluated through November 30, 2021, which is the date the financial statements were available to be issued.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

N. Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent bond proceeds.

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the remaining portion of net position.

A summary of net investment in capital assets by division as of August 31, 2022 is as follows:

Division	Capital Assets	Unspent Bond Proceeds	Capital Related	Net Investment In Capital Assets
	Net of Depreciation/Amortization		Bonds/Leases Payable ¹	
League City SE Water Purification Plant	\$ 10,157,421	\$ -	\$ (6,546,452)	\$ 3,610,969
Thomas Mackey Water Treatment Plant	14,475,264	-	(944,013)	13,531,251
Canal Division	30,060,981	-	-	30,060,981
Galveston County WCID #12	936,138	-	(1,090,000)	(153,862)
1997 Galveston Projects	1,210,584	-	-	1,210,584
1998 A-B Series South Projects	2,038,458	-	-	2,038,458
Juliff Chocolate Bayou Operations	21,471,862	273	-	21,472,135
Pearland SE Water Purification Plant	12,878,716	-	-	12,878,716
Northline Group	189,676	-	-	189,676
Bayshore Group	8,665	-	-	8,665
Texas City Reservoir	14,707,183	892,600	(5,740,000)	9,859,783
Industrial Pump Station	30,247,206	-	(12,773,026)	17,474,180
Administrative Operations	10,626,410	-	-	10,626,410
	<u>\$ 149,008,564</u>	<u>\$ 892,873</u>	<u>\$ (27,093,491)</u>	<u>\$ 122,807,946</u>

¹ Includes premium and deferred gains/losses on refunding

A summary of net position restricted for debt service as of August 31, 2022 is as follows:

	Restricted Investments for Debt Service	Accrued Interest Payable	Total
	League City SE Water Purification Plant	\$ 392,164	
Galveston County WCID #12	278,278	(1,720)	276,558
1998 A-B South Projects	83,051	-	83,051
Texas City Reservoir	120,950	(6,928)	114,022
Industrial Pump Station	1,508,773	(18,335)	1,490,438
Total	<u>\$ 2,383,216</u>	<u>\$ (35,905)</u>	<u>\$ 2,347,311</u>

A summary of investments restricted by category as of August 31, 2022 is as follows:

Restricted Investments	Amount
Unspent Bond Proceeds	\$ 892,873
Debt Service	2,383,216
Debt Service on Behalf of Customers	97,254
	<u>\$ 3,373,343</u>

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

O. Implementation of New Accounting Standards

GASB No. 87, Leases, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Authority had agreements in place as the lessee and lessor and the effect is reflected in the financial statements.

Note 2 - Cash and Cash Equivalents and Investments

The Authority's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Authority's agent bank approved pledged securities in an amount sufficient to protect Authority funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the general-purpose financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the Authority adhered to the requirements of the Act. Additionally, investment practices of the Authority were in accordance with bond provisions.

Deposits

As authorized in bond provisions, deposits of the Authority are in short-term certificates of deposit, demand accounts and interest-bearing money market accounts. Deposits of \$600,620 are secured as of August 31, 2022 by FDIC coverage and by pledged U.S. Government securities held by an agent of the bank in the name of the depository bank. The carrying value of the Authority's cash and cash equivalents as of August 31, 2022 was \$8.0 million, which includes investments in local government investment pools.

Investments

Investments for the Authority are reported at fair value. The Authority categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The Authority's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

U.S. agency securities, commercial paper, and money market mutual funds are reported at fair value using level 1 inputs which are determined using quoted market prices for identical assets. Unrealized gains and losses are included as a component of investment income.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Cash Equivalents and Investments (continued)

Investments (continued)

The Authority’s investment policy reflects the requirements of the Texas Public Funds Investment Act. This statute authorizes the Authority to invest in obligations of the U.S. Treasury, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, investment pools, qualified commercial paper, and common trust funds.

State law and the Authority’s investment policy limits investments in agency securities to be rated AA or better with a stated maturity not to exceed three years. Commercial paper is A1/P1 rated with a stated maturity not to exceed 180 days. As of August 31, 2022, all investments were made in accordance with the Authority’s investment policy. Investments that are not represented by specific identifiable investment securities such as mutual fund investment pools are not classified as to credit risk.

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in Authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

TexPool uses amortized cost rather than fair value to report net position to compute share prices. The amortized cost of the position in TexPool is the same as the value of TexPool shares. Accordingly, the Authority’s investments in TexPool are stated at amortized cost, which approximates fair value.

TexPool and TexPool Prime are currently rated AAAM by Standard and Poor’s which indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss. The pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

At year-end, the Authority’s investment balances were as follows:

Investment Type	Fair Value / Amortized Cost	Percentage of Portfolio	Less than 1 Year	1-2 Years	2-3 Years	Weighted Average Maturity (Days)
TexPool	\$ 1,044,153	2.0%	\$ 1,044,153	\$ -	\$ -	24
TexPool Prime	20,913,562	40.8%	20,913,562	-	-	15
US Agency Securities	15,052,137	29.4%	2,977,947	6,808,915	5,265,275	557
Commercial Paper	4,879,600	9.5%	-	4,879,600	-	225
Money Market Mutual Fund	9,325,936	18.2%	-	9,325,936	-	1
Total	\$ 51,215,388	100%	\$ 24,935,662	\$ 21,014,451	\$ 5,265,275	192

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3 - Capital Assets

The following table summarizes the changes in the components of capital assets:

	Beginning Balance, as Restated	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 1,987,726	\$ 426	\$ -	\$ 811,642	\$ 2,799,794
Construction in progress	48,608,021	29,282,516	(53,552)	(43,399,348)	34,437,637
Total capital assets not being depreciated	50,595,747	29,282,942	(53,552)	(42,587,706)	37,237,431
Capital assets being depreciated:					
Office furniture, fixtures and equipment	455,297	-	-	258,507	713,804
Other machinery and equipment	6,967,157	-	(88)	328,408	7,295,477
Automobiles and trucks	2,179,395	-	-	-	2,179,395
Buildings	5,951,711	-	(8,258)	92,113	6,035,566
Infrastructure	241,262,839	1,903	(387,334)	41,908,678	282,786,086
Right-to-use assets	3,039,396	-	-	-	3,039,396
Total capital assets being depreciated	259,855,795	1,903	(395,680)	42,587,706	302,049,724
Less accumulated depreciation for:					
Office furniture, fixtures and equipment	(215,767)	(63,066)	-	-	(278,833)
Other machinery and equipment	(4,529,717)	(611,102)	88	-	(5,140,731)
Automobiles and trucks	(1,540,012)	(228,064)	-	-	(1,768,076)
Buildings	(3,601,934)	(308,821)	8,258	-	(3,902,497)
Infrastructure	(170,175,566)	(9,138,197)	365,227	-	(178,948,536)
Right-to-use assets	-	(239,918)	-	-	(239,918)
Total accumulated depreciation	(180,062,996)	(10,589,168)	373,573	-	(190,278,591)
Total capital assets being depreciated, net	79,792,799	(10,587,265)	(22,107)	-	111,771,133
Total Capital Assets, net	\$ 130,388,546	\$ 18,695,677	\$ (75,659)	\$ -	\$ 149,008,564

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3 - Capital Assets (continued)

Construction in Progress

Construction in progress for the various projects and remaining commitments under these construction contracts as of August 31, 2022, are as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Commitment
TM WATER TREATMENT PLANT			
TMWTP Renovations	\$ 1,662,256	\$ 1,552,256	\$ 110,000
Projects Under \$500,000	962,136	2,155,372	(1,193,236)
	<u>2,624,392</u>	<u>3,707,628</u>	<u>(1,083,236)</u>
CANAL DIVISION			
SHANNON INTAKE (FEMA)	8,498,624	4,172,200	4,326,424
SAUER OPERATIONS CENTER	6,808,029	6,723,029	85,000
Projects Under \$500,000	2,754,463	2,376,693	377,770
	<u>18,061,116</u>	<u>13,271,922</u>	<u>4,789,194</u>
1998 A-B SERIES PROJECTS			
Projects Under \$500,000	712,469	612,312	100,157
	<u>712,469</u>	<u>612,312</u>	<u>100,157</u>
CHOCOLATE BAYOU DIVISION			
MUSTANG RESERVOIR	2,619,772	2,478,021	141,751
Saltwater Barrier Improvements			-
Projects Under \$500,000	679,336	664,054	15,282
	<u>3,299,108</u>	<u>3,142,075</u>	<u>157,033</u>
NORTH TRANSMISSION SYSTEM			
Projects Under \$500,000	46,777	6,203	40,574
	<u>46,777</u>	<u>6,203</u>	<u>40,574</u>
TEXAS CITY RESERVOIR			
Drainage Improvement	1,509,542	1,488,983	20,559
Projects Under \$500,000	388,119	304,274	83,845
	<u>1,897,661</u>	<u>1,793,257</u>	<u>104,404</u>
TEXAS CITY INDUSTRIAL			
Projects Under \$500,000	1,517,303	1,465,582	51,721
	<u>1,517,303</u>	<u>1,465,582</u>	<u>51,721</u>
ADMINISTRATION			
GCWA ADMINISTRATION BLDG	11,103,165	9,715,335	1,387,830
Projects Under \$500,000	1245261	723323	
	<u>12,348,426</u>	<u>10,438,658</u>	<u>1,387,830</u>
Total Construction in Progress	<u>\$ 40,507,252</u>	<u>\$ 34,437,637</u>	<u>\$ 5,547,677</u>

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt

Changes in Long-Term Liabilities

Total long-term liability activity for the year ended August 31, 2022, is as follows:

	<u>Beginning Balance, as Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Bonds Payable:						
Revenue bonds	\$ 24,368,000	\$ 5,985,000	\$ (6,808,000)	\$ 23,545,000	\$ 2,145,000	\$ 21,400,000
Bond premiums	173,381	741,448	(198,377)	716,452	-	716,452
Total bonds payable	<u>24,541,381</u>	<u>6,726,448</u>	<u>(7,006,377)</u>	<u>24,261,452</u>	<u>2,145,000</u>	<u>22,116,452</u>
Compensated absences	1,420,520	(49,461)	-	1,371,059	457,020	914,039
Leases	3,039,396	-	(207,357)	2,832,039	205,854	2,626,185
Long term liabilities	<u>\$ 29,001,297</u>	<u>\$ 6,676,987</u>	<u>\$ (7,213,734)</u>	<u>\$ 28,464,550</u>	<u>\$ 2,807,874</u>	<u>\$ 25,656,676</u>

Revenue bond long-term activity for the year ended August 31, 2022, is as follows:

<u>Series</u>	<u>Division</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2016A	Industrial Division	\$ 3,055,000	\$ -	\$ (480,000)	\$ 2,575,000	\$ 495,000
2016B	Industrial Division	3,740,000	-	(575,000)	3,165,000	595,000
2017	Industrial Division	11,615,000	-	(730,000)	10,885,000	755,000
2018	Industrial Division	1,170,000	-	(80,000)	1,090,000	85,000
	Subtotal	<u>19,580,000</u>	<u>-</u>	<u>(1,865,000)</u>	<u>17,715,000</u>	<u>1,930,000</u>
2021	League City Southeast Division	-	5,985,000	(155,000)	5,830,000	215,000
2011A	1998 A-B South Projects	2,370,000	-	(2,370,000)	-	-
2011B	1998 A-B South Projects	365,000	-	(365,000)	-	-
	Subtotal	<u>2,735,000</u>	<u>-</u>	<u>(2,735,000)</u>	<u>-</u>	<u>-</u>
2011C	1998 C Series Texas City Projects	1,445,000	-	(1,445,000)	-	-
2012	2002 Galveston Projects	338,000	-	(338,000)	-	-
2011D	1998 D Series La Marque Projects	270,000	-	(270,000)	-	-
	Total Bonds Payable	<u>\$ 24,368,000</u>	<u>\$ 5,985,000</u>	<u>\$ (6,808,000)</u>	<u>\$ 23,545,000</u>	<u>\$ 2,145,000</u>

In November 2021, the Authority issued \$5,985,000 of Contract Revenue Bonds (City of League City Project – Southeast Transmission Line) Series 2021 with a premium of \$741,448. These bonds are issued to fund a portion of the cost of capacity in a larger diameter water transmission line in order to help ensure sufficient transmission capacity to supply the City’s future water needs from the City of Houston’s Southeast Water Purification Plant. The bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by a first lien on pledged revenues as set forth in a water supply contract dated November 18, 2021 between the Authority and the City of League City. The water supply contract unconditionally obligates the City of League City to pay principal, interest, banking fees, and other charges associated with the bonds.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Long-Term Debt (continued)

Changes in Long Term Liabilities (continued)

Future payments due for outstanding bonds are as follows

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,145,000	\$ 808,769	\$ 2,953,769
2024	2,215,000	738,825	2,953,825
2025	2,290,000	666,490	2,956,490
2026	2,360,000	591,556	2,951,556
2027	2,430,000	514,231	2,944,231
2028 to 2032	8,745,000	1,395,667	10,140,667
2033 to 2037	1,815,000	391,833	2,206,833
2038 to 2042	1,545,000	117,600	1,662,600
Total	\$ 23,545,000	\$ 5,224,971	\$ 28,769,971

Lease Liabilities

The authority has two agreements in place to lease equipment (generators). The first agreement in the Industrial Pump Station Division consists of monthly payments of \$8,000 through April 2034 with an interest rate of 0.250%, resulting in a right-to-use the asset of \$2,026,264, which is amortized over the life of the lease. The second agreement in the Thomas S. Mackey Water Treatment Plant consists of monthly payments of \$8,000 through April 2034 with an interest rate of 0.250%, resulting in a right-to-use the asset of \$1,013,132, which is amortized over the life of the lease.

Future payments due for outstanding leases are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 205,854	\$ 82,146	\$ 288,000
2024	212,115	75,885	288,000
2025	218,567	69,433	288,000
2026	225,215	62,785	288,000
2027	232,065	55,935	288,000
2028 to 2032	1,270,595	169,405	1,440,000
2033 to 2037	467,628	12,372	480,000
Total	\$ 2,832,039	\$ 527,961	\$ 3,360,000

Note 5 - Compensated Absences

All full-time employees begin accruing paid sick leave eight (8) hours per month from the date of employment. Employees cannot use sick leave until completing ninety (90) days of service. Full-time employees who have completed five (5) years of service and are separated for non-disciplinary reasons shall be paid for one half of their accrued sick leave up to a maximum of 360 hours. Employees who have completed ten (10) years of service and separate due to death or retirement shall be paid the balance of accumulated sick leave up to a maximum of nine hundred and sixty (960) hours.

Full-time employees will accrue vacation hours each pay period beginning on their hire date. Employees will be able to take vacation upon completion of ninety (90) days of service. The maximum accrued balance an employee may carry is two times their annual accrual limit. The annual accrual limit for each employee is dependent on their years of service and ranges from 80 hours accrued per year for employees with less than 5 years of service to a maximum of 240 hours accrued per year for employees with more than 30 years of service. At August 31, 2022, accrued compensated absences were \$1,371,059 with \$457,020 due within one year.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan

Plan Description

The Authority provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit plan in the state-wide Texas County and District Retirement System ("TCDRS"). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system, consisting of 677 nontraditional defined benefit pension plans. TCDRS issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available, upon written request, from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas, 78768-2034 or online at www.tcdrs.org.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS ("TCDRS Act"). Members can retire at age 60 and above with 5 or more years of service, with 30 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after 5 years of service but must leave their accumulated contributions to the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits, with interest. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitments to contribute. At retirement, disability or death, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates, as prescribed by the TCDRS Act.

At the December 31, 2021 measurement date, the following employees were covered by the benefit terms:

Number of inactive employees entitled to but not yet receiving benefits	53
Number of active employees	100
Number of inactive employees receiving benefits	43

Funding Policy/Contributions

The employer has chosen a variable rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer for the fiscal year was 9.12% for September 2021 through December 2021 and 10.10% for January 2022 through August 2022. The contribution rate for employees was 7%, as adopted by the governing body of the employer. The contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer with options available in the TCDRS ACT.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the system's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Net Pension Liability (Asset)

The Authority’s Net Pension Liability (Asset) (“NPL” or “NPA”) was measured as of December 31, 2021, and the Total Pension Liability (“TPL”) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of December 31, 2020.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Real rate of return	5.00%
Inflation	2.50%
Long-term investment return	7.50%
Growth in membership	0.00%
Payroll growth	2.00%

Valuation date	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age (level percent of pay) ⁽¹⁾
Amortization method	Straight-Line amortization over Expected Working Life
Remaining amortization period	20.0 years (based on contribution rate calculated in 12/31/2020 valuation)
Asset valuation method	5-year smoothed market
Inflation rate	2.50%
Salary increases	Varies by age and service; 4.7% average over career including inflation.
Investment rate of return	7.5%, net of administrative and investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions ¹	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions ¹	2015: Employer contributions reflect that a 2% flat COLA was adopted. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: Employer contributions reflect that a 100% CPI COLA was adopted 2020: No changes in plan provisions were reflected in the schedule. 2021: Employer contributions reflect that a 100% CPI COLA was adopted

¹ Only changes that affect the benefit amount and that are effective 2015 and later are shown above.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Actuarial Assumptions (continued)

Actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study over the years 2017-2020, except where required to be different by GASB 68. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS. The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected Minus Inflation)</u>
US Equities	11.50%	3.80%
Global Equities	2.50%	4.10%
Int'l Equities - Developed Markets	5.00%	3.80%
Int'l Equities - Emerging Markets	6.00%	4.30%
Investment-Grade Bonds	3.00%	-0.85%
Strategic Credit	9.00%	1.77%
Direct Lending	16.00%	6.25%
Distressed Debt	4.00%	4.50%
REIT Equities	2.00%	3.10%
Master Limited Partnerships	2.00%	3.85%
Private Real Estate Partnerships	6.00%	5.10%
Private Equity	25.00%	6.80%
Hedge Funds	6.00%	1.55%
Cash Equivalents	2.00%	-1.05%
Total Assets	<u>100.00%</u>	4.52%

Changes in Actuarial Assumptions and Methods

There were two assumptions that changed for the December 31, 2020 actuarial valuation: the investment return assumption and the price inflation assumption. The change in the price inflation assumption also impacted the salary increases assumption and the payroll growth assumption. They were adopted by the TCDRS Board of Trustees in March 2021 and first used in the December 31, 2020 actuarial valuation.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2019	\$ 31,252,897	\$ 29,389,082	\$ 1,863,814
Changes for the Year			
Service cost	985,642	-	985,642
Interest on total pension liability	2,395,424	-	2,395,424
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	102,073	-	102,073
Effect of assumptions changes or inputs	(141,895)	-	(141,895)
Refund of contributions	(15,608)	(15,608)	-
Benefit payments	(1,450,851)	(1,450,851)	-
Administrative expenses	-	(19,262)	19,262
Member contributions	-	549,401	(549,401)
Net investment income	-	6,432,203	(6,432,203)
Employer contributions	-	715,791	(715,791)
Other	-	2,393	(2,393)
Balances as of December 31, 2020	\$ 33,127,682	\$ 35,603,149	\$ (2,475,468)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority, calculated using the discount rate of 7.60%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease in Discount Rate 6.60%	Discount Rate 7.60%	1% Increase in Discount Rate 8.60%
Total pension liability	\$ 37,180,389	\$ 33,127,682	\$ 29,686,474
Fiduciary net position	35,603,149	35,603,149	35,603,149
	\$ 1,577,240	\$ (2,475,467)	\$ (5,916,675)

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Defined Benefit Pension Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended August 31, 2022, the Authority recognized pension income of \$227,896.

As of August 31, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ 287,610	\$ 40,371
Changes in assumptions	1,074,883	113,873
Net difference between projected and actual earnings	-	4,039,948
Contributions made subsequent to the measurement date	560,021	-
	<u>\$ 1,922,514</u>	<u>\$ 4,194,192</u>

The \$560,021 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending August 31, 2023.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions subsequent to the measurement date, will be recognized in pension expense as follows:

<u>Year Ended August 31,</u>	<u>Amount</u>
2023	\$ (572,274)
2024	(1,060,003)
2025	(667,522)
2026	(531,900)
	<u>\$ (2,831,699)</u>

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Post Employment Benefits other than Pensions (OPEB)

Plan Description

The Authority participates in the retiree Group Term Life (GTL) program for the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system described more fully in Note 6. The benefit terms of this program are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The Authority’s contribution rate for the retiree GTL program is calculated annually on an actuarial basis and is equal to the cost of providing a one-year death benefit equal to \$5,000. The benefits provided by this program are as follows:

- All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year and are eligible for the TCDRS pension plan. Only employers that have elected participation in the retiree Group Term Life program are included in the OPEB plan.
- The plan provides a \$5,000 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the retiree GTL program.
- The OPEB benefit is a fixed \$5,000 lump-sum benefit.
- No future increases are assumed in the \$5,000 benefit amount.
- Benefit terms are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year.

Membership Information

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

Number of inactive employees entitled to but not yet receiving benefits	20
Number of active employees	100
Number of inactive employees receiving benefits	35

“Receiving benefits” indicates the member is retired and receiving monthly pension benefits, and his or her beneficiary is eligible for the \$5,000 lump sum upon the retiree’s death.

Contributions

Under the GTL program, the employer’s benefit payments for the year are treated as being equal to its annual retiree GTL contributions. Employers in the GTL Program make a combined contribution for both the active and retiree coverage; however, only the retiree coverage is considered an OPEB plan and therefore only the contributions associated with retiree covered are included under GASB 75.

The contributions for retiree GTL coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown on the exhibit on the next page. The contributions for active coverage are not considered an OPEB benefit under GASB 75 and are treated as a current benefit. Contributions made by the employer for retiree GTL benefits have been made at 0.12% for the 2019 and 2020 plan (calendar) years.

Contributions made to the retiree GTL program are held in the GTL fund. The GTL fund does not meet the requirements of a trust under Paragraph 4b of GASB 75, as the assets of the GTL fund can be used to pay active GTL benefits which are not part of the OPEB plan.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Post Employment Benefits other than Pensions (OPEB) (continued)

Actuarial Assumptions

The Authority’s Total OPEB Liability (“TOL”) was measured as of December 31, 2021 and was determined by an actuarial valuation as of December 31, 2020 using the following actuarial assumptions:

Valuation timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry Age Normal
Amortization method	Straight line amortization over expected working life
Investment rate of return	2.06%; 20 Year Bond GO Index published by bondbuyer.com as of December 31, 2021.
Disability	Custom table based on TCDRS experience
Mortality - depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Mortality - disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014
Retirement	Custom table based on TCDRS experience
Other Termination of Employment	Custom table based on TCDRS experience

Discount Rate

The TCDRS GTL program is treated as unfunded OPEB plan because the GTL trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.06% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2020.

Changes in Total OPEB Liability

	Total OPEB Liability
Balances as of December 31, 2020	\$ 213,083
Changes for the year:	
Service cost	8,579
Interest on total OPEB liability	4,633
Effect of economic/demographic experience	2,034
Effect of assumptions changes or inputs	2,125
Benefit payments	(6,279)
Balances as of December 31, 2021	\$ 224,175

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Post Employment Benefits other than Pensions (OPEB) (continued)

Sensitivity Analysis

The following presents the total OPEB liability of the Authority, calculated using the discount rate of 2.06%, as well as what total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease 1.06%	Current Discount Rate 2.06%	1% Increase 3.06%
Total OPEB liability	\$ 272,561	\$ 224,175	\$ 187,047

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity

For the year ended August 31, 2022, the Authority recognized OPEB expense of \$22,684.

As of August 31, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 13,536	\$ 3,247
Changes in assumptions	40,248	6,543
Contributions made subsequent to the measurement date	3,882	-
	<u>\$ 57,666</u>	<u>\$ 9,790</u>

The \$3,882 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending August 31, 2023.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Year Ended August 31,	Amount
2022	\$ 9,472
2023	9,470
2024	8,964
2025	9,994
2026	5,505
2027	589
	<u>\$ 43,994</u>

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Contracts

Customer Contracts

The Authority has contracted with its customers to sell and deliver water on demand, and the customers have agreed to buy from the GCWA or to pay for whether taken or not, minimum quantities of water as set forth in the contracts.

Cost Sharing Water Project with City of Houston

The Authority entered into a long-term cost sharing water project contract with the City of Houston, Texas to jointly finance and operate the Southeast Water Purification Plant (SEWPP) to supply existing and future treated water needs of the City of League City and the City of Pearland, Texas. Terms of the contract provide that the GCWA shall directly reimburse the City of Houston on a periodic basis for the expenses incurred in producing and pumping the water actually delivered to GCWA.

Brooks Lake Diversion Weir Agreement with City of Sugar Land

The Authority entered into a long-term agreement to establish a mechanism to fund the design, construction, operation, and maintenance costs of the Brooks Lake Diversion Weir. The City of Sugar Land will finance the project and the Authority will reimburse the City of Sugar Land for fifty percent of the cost of the project over no more than ten years in the manner stated in the agreement. Following the completion and acceptance by the City of Sugar Land of the project, the parties will true up and reconcile the project costs to actual costs to reflect full reimbursement to the City of Sugar Land by the Authority for fifty percent of the project costs.

Chocolate Bayou Pump Station with INEOS Olefins & Polymers USA

The Authority entered into a long-term agreement with INEOS Olefins & Polymers USA ("INEOS") to design, construct, and acquire a new Chocolate Bayou Pump Station and ancillary improvements. The estimated total cost of the project is \$8.70 million, of which INEOS agreed to make capital contributions totaling \$4.79 million. At the end of fiscal year 2021, the project was substantially complete and expected to be online by the Spring of fiscal year 2022.

Note 9 - Employee 401(K) Plan Trust

The Authority adopted the Gulf Coast Water Authority Employee 401(K) Plan (the "Plan") for the benefit of its employees. The Plan is exempt from tax under section 501(a) of the Internal Revenue Code of 1986, by reason of qualifying under section 401 (a) of the Code. The Plan is self-directed, as each participant directs the trustees as to the investment of the assets for each participant's account. Employer contributions are 4% of gross income for employees hired prior to January 1, 1999, the effective date of the Plan. For employees employed after the effective date of the Plan, the Authority will match on a dollar-for-dollar basis up to a maximum of 4% of employee's gross income from the Authority to the Plan; any employee would be vested in 100% of the Authority's contributions to the Plan who has been employed with the Authority for three (3) years of continuous service, including service prior to the effective date of the Plan. Employees may contribute to the Plan up to the maximum amount permitted under the Internal Revenue Code. Total employer contributions for the year ended August 31, 2022, were \$174,649.

GULF COAST WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 10 - Insurance

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. Significant losses are covered by insurance as described below. There were no reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

At August 31, 2022, the Authority had a property and machinery breakdown coverage of \$69,718,440; flood and earth movement coverage of \$5,000,000; general liability coverage with a per occurrence limit of \$1,000,000 and a general aggregate limit of \$3,000,000; umbrella liability of \$1,000,000; director's liability of \$1,000,000; automobile liability of \$1,000,000; and workers compensation with statutory coverage.

All coverages with the exception of automobile and workers compensation are insured with admitted A.M. Best rated A insurance companies. The automobile and workers compensation are placed with Texas Municipal League Intergovernmental Risk Pool. The Authority participates in the Texas Municipal League Intergovernmental Risk Pool. Risk of loss retained by the Authority is the annual premium plus the related deductibles. No uninsured losses for the year exceeded these amounts.

Note 11 - Financing Agreement (Long-Term Receivable)

The Authority has entered into multiple agreements to issue revenue bonds in order to finance capital projects on-behalf of municipal customers. The principal and interest for these bonds are paid solely from payments received from the participating customers. The Authority is the legal owner of the assets until the bonds are paid in full. However, the customers have exclusive rights to the water transportation capacity of those assets and the customers become the owner of the assets once the associated bonds are deemed to be paid in full. The customers are responsible for operation and maintenance of the assets at the sole cost and expense to the customer. Therefore, the customers report the associated capital assets in their individual financial statements. As such, the Authority reports a long-term receivable which represents the remaining balance to be paid by the customer over the life of the bonds, less the amount of the current receivable billed and outstanding as of August 31, 2022. The agreements in the following divisions concluded during fiscal year 2022: 1998 C Series Texas City Projects, 1998 D La Marque Projects, and 2002 Galveston Projects. The Authority entered into a new agreement in the League City SE Water Purification Plant Division during fiscal year 2022. Since the customers will fund the remaining portion of the outstanding liability and related costs, there is no net position reported for these divisions.

Note 12 - Leases

The Authority has two agreements in place in which payments are received by the Authority in exchange for the right-to-use Authority assets. The first agreement consists of monthly payments of \$1,000 with an interest rate of 3% through July 2044, resulting in a lease receivable of \$430,791 as of August 31, 2022. The second agreement consists of monthly payments of \$1,000 with an interest rate of 3% through July 2038, resulting in a lease receivable of \$165,529 as of August 31, 2022. A deferred inflow of resources for future revenue recognition is reported as of August 31, 2022 for each receivable in the amount of \$419,203 and \$162,662, respectively.

Note 13 - Subsequent Events

In September 2022, the Authority issued \$5,210,000 of Contract Revenue Bonds (City of League City Project – Southeast Transmission Line) Series 2022 with a premium of \$269,511. These bonds are issued to fund a portion of the cost of capacity in a larger diameter water transmission line in order to help ensure sufficient transmission capacity to supply the City's future water needs from the City of Houston's Southeast Water Purification Plant. The bonds are special revenue obligations of the Authority that are equally and ratably payable both as to principal and interest solely from and secured by a first lien on pledged revenues as set forth in a water supply contract dated November 18, 2021 between the Authority and the City of League City. The water supply contract unconditionally obligates the City of League City to pay principal, interest, banking fees, and other charges associated with the bonds.

REQUIRED SUPPLEMENTARY INFORMATION

GULF COAST WATER AUTHORITY
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS
For the Last Eight Measurement Years Ended December 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Pension Liability				
Service cost	\$ 985,642	\$ 715,152	\$ 605,629	\$ 570,662
Interest on total pension liability	2,395,424	2,215,895	2,107,188	1,906,466
Effect of plan changes	-	515,387	-	1,162,542
Effect of economic/demographic gains or losses	102,073	292,206	(80,745)	14,528
Effect of assumptions changes or inputs	(141,895)	1,612,325	-	-
Difference between expected and actual performance	-	-	-	-
Refund of contributions	(15,608)	(47,704)	(61,401)	(41,552)
Benefit payments/refunds of contributions	(1,450,851)	(1,403,340)	(1,288,586)	(1,035,984)
Net change in total pension liability	<u>1,874,785</u>	<u>3,899,921</u>	<u>1,282,085</u>	<u>2,576,662</u>
Total pension liability, beginning	<u>31,252,897</u>	<u>27,352,975</u>	<u>26,070,890</u>	<u>23,494,228</u>
Total pension liability, ending (a)	<u>\$ 33,127,682</u>	<u>\$ 31,252,896</u>	<u>\$ 27,352,975</u>	<u>\$ 26,070,890</u>
Fiduciary Net Position				
Employer contributions	\$ 715,791	\$ 668,565	\$ 509,285	\$ 435,105
Member contributions	549,401	522,316	409,769	351,296
Investment income net of investment expenses	6,432,203	2,778,172	3,859,668	(455,435)
Benefit payments	(1,450,851)	(1,403,340)	(1,288,586)	(1,035,984)
Refunds of contributions	(15,608)	(47,704)	(61,401)	(41,552)
Administrative expenses	(19,262)	(21,504)	(20,497)	(18,876)
Other	2,393	(5,033)	(11,007)	(6,234)
Net change in fiduciary net position	<u>6,214,067</u>	<u>2,491,472</u>	<u>3,397,231</u>	<u>(771,680)</u>
Fiduciary net position, beginning	<u>29,389,082</u>	<u>26,897,610</u>	<u>23,500,379</u>	<u>24,272,059</u>
Fiduciary net position, ending (b)	<u>\$ 35,603,149</u>	<u>\$ 29,389,082</u>	<u>\$ 26,897,610</u>	<u>\$ 23,500,379</u>
Net pension liability / (asset), ending = (a) - (b)	\$ (2,475,467)	\$ 1,863,814	\$ 455,365	\$ 2,570,511
Fiduciary net position as a % of total pension liability	107.47%	94.04%	98.34%	90.14%
Covered payroll	\$ 7,848,586	\$ 7,461,659	\$ 5,853,586	\$ 5,018,511
Net pension liability / (asset) as a % of covered payroll	-31.54%	24.98%	7.78%	51.22%

Note: GASB 68 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2015, data for previous years is unavailable.

GULF COAST WATER AUTHORITY
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITIES AND RELATED RATIOS
For the Last Eight Measurement Years Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service cost	\$ 525,024	\$ 521,896	\$ 446,105	\$ 424,292
Interest on total pension liability	1,793,234	1,705,631	1,600,213	1,451,551
Effect of plan changes	-	-	(50,096)	-
Effect of economic/demographic gains or losses	37,814	(541,362)	(76,245)	-
Effect of assumptions changes or inputs	(2,147)	-	145,422	-
Difference between expected and actual performance	-	-	-	508,957
Refund of contributions	(29,821)	(39,657)	(52,491)	-
Benefit payments/refunds of contributions	(898,838)	(781,376)	(637,742)	(526,744)
Net change in total pension liability	<u>1,425,266</u>	<u>865,132</u>	<u>1,375,166</u>	<u>1,858,056</u>
Total pension liability, beginning	<u>22,068,962</u>	<u>21,203,830</u>	<u>19,828,664</u>	<u>17,970,608</u>
Total pension liability, ending (a)	<u>\$ 23,494,228</u>	<u>\$ 22,068,962</u>	<u>\$ 21,203,830</u>	<u>\$ 19,828,664</u>
Fiduciary Net Position				
Employer contributions	\$ 406,156	\$ 374,433	\$ 332,112	\$ 550,788
Member contributions	327,923	302,310	268,141	242,851
Investment income net of investment expenses	3,116,068	1,511,562	(222,362)	1,283,888
Benefit payments	(898,838)	(781,376)	(637,742)	(526,744)
Refunds of contributions	(29,821)	(39,657)	(52,491)	-
Administrative expenses	(16,142)	(16,435)	(14,817)	(15,246)
Other	(2,760)	(403,097)	23,896	365,134
Net change in fiduciary net position	<u>2,902,586</u>	<u>947,740</u>	<u>(303,263)</u>	<u>1,900,671</u>
Fiduciary net position, beginning	<u>21,369,473</u>	<u>20,421,733</u>	<u>20,724,996</u>	<u>18,824,325</u>
Fiduciary net position, ending (b)	<u>\$ 24,272,059</u>	<u>\$ 21,369,473</u>	<u>\$ 20,421,733</u>	<u>\$ 20,724,996</u>
Net pension liability / (asset), ending = (a) - (b)	\$ (777,831)	\$ 699,489	\$ 782,097	\$ (896,332)
Fiduciary net position as a % of total pension liability	103.31%	96.83%	96.31%	104.52%
Covered payroll	\$ 4,684,610	\$ 4,318,716	\$ 3,830,584	\$ 3,469,295
Net pension liability / (asset) as a % of covered payroll	-16.60%	16.20%	20.42%	-25.84%

Note: GASB 68 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2015, data for previous years is unavailable.

GULF COAST WATER AUTHORITY
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
Last Eight Fiscal Years

Year Ending August 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 332,112	\$ 332,112	\$ -	\$ 3,830,588	8.67%
2016	363,871	363,871	-	4,198,263	8.67%
2017	381,828	381,828	-	4,404,014	8.67%
2018	448,326	448,326	-	5,171,004	8.67%
2019	477,326	477,326	-	5,492,147	8.69%
2020	600,623	600,623	-	6,761,061	8.88%
2021	691,128	691,128	-	7,625,319	9.06%
2022	715,791	715,791	-	7,848,586	9.12%

Note: GASB 68 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2015, data for previous years is unavailable.

GULF COAST WATER AUTHORITY
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITIES AND RELATED RATIOS
For the Last Five Measurement Years Ended December 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability					
Service cost	\$ 8,579	\$ 8,329	\$ 4,888	\$ 5,435	\$ 4,818
Interest on total OPEB liability	4,633	4,886	5,773	4,976	5,162
Effect of economic/demographic experience	2,034	11,669	(4,146)	8,066	(3,071)
Effect of assumptions changes or inputs	2,125	22,707	35,556	(15,263)	6,619
Benefit payments/refunds of contributions	<u>(6,279)</u>	<u>(8,954)</u>	<u>(7,025)</u>	<u>(6,022)</u>	<u>(6,090)</u>
Net change in total OPEB liability	11,092	38,637	35,046	(2,808)	7,438
Total OPEB liability, beginning	213,083	174,446	139,400	142,208	134,770
Total OPEB liability, ending	<u>\$ 224,175</u>	<u>\$ 213,083</u>	<u>\$ 174,446</u>	<u>\$ 139,400</u>	<u>\$ 142,208</u>
Covered-employee payroll	\$ 7,848,586	\$ 7,461,659	\$ 5,853,586	\$ 5,018,511	\$ 4,684,610
Total OPEB liability as a % of covered-employee payroll	2.86%	2.86%	2.98%	2.78%	3.04%

Notes:

GASB 75 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2018, data for previous years is unavailable.

No assets are accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

GULF COAST WATER AUTHORITY
TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
Last Seven Fiscal Years

Year Ending August 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 5,261	\$ 5,261	\$ -	\$ 4,198,263	0.13%
2017	4,981	4,981	-	4,404,014	0.11%
2018	6,324	6,324	-	5,171,004	0.12%
2019	6,590	6,590	-	5,492,147	0.12%
2020	8,114	8,114	-	6,761,061	0.12%
2021	7,176	7,176	-	7,625,319	0.09%
2022	6,211	6,211	-	7,848,586	0.08%

Notes:

GASB 75 requires ten years of data to be provided in this schedule. However, because this standard was implemented in fiscal year 2018, data for previous years is unavailable.

No assets are accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

APPENDIX D
FORMS OF OPINIONS OF BOND COUNSEL

BRACEWELL

[CLOSING DATE]

We have acted as bond counsel for Gulf Coast Water Authority (the “Authority”) in connection with the bonds described as follows:

GULF COAST WATER AUTHORITY CONTRACT REVENUE BONDS (THOMAS S. MACKEY WATER TREATMENT PLANT EXPANSION), SERIES 2023A (TAX-EXEMPT), dated March 15, 2023, 2023, in the principal amount of \$16,425,000 (the “Series 2023A Bonds”).

The Series 2023A Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Series 2023A Bonds, the resolution adopted by the Board of Directors of the Authority on January 19, 2023 authorizing their issuance (the “Bond Resolution”), and a pricing certificate executed pursuant thereto (the “Pricing Certificate,” and collectively with the Bond Resolution, the “Resolution”). Capitalized terms not defined herein shall have the meanings ascribed thereto in the Resolution.

We have acted as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2023A Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Series 2023A Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Series 2023A Bonds. Our role in connection with the Authority’s Preliminary Official Statement and Official Statement has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the authorization and issuance of the Series 2023A Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority and the City Council of the City of Hitchcock, the City Council of the City of La Marque, the City Council of the City of League City, the Board of Directors of Galveston County Water Control and Improvement District No. 8, and the Board of Directors of Galveston County Water Control and Improvement District No. 12 (collectively, the “Participants”); customary certificates of officers, agents and representatives of the Authority, the Participants, and other public officials; and other certified showings relating to the authorization and issuance of the Series 2023A Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have executed Bond No. I-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Authority, the Authority’s financial advisor, the Participants, and other parties involved with the issuance of the Series 2023A Bonds with respect to matters solely within the knowledge of such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing

Bracewell LLP

T: +1.713.223.2300 F: +1.800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
bracewell.com

AUSTIN CONNECTICUT DALLAS DUBAI HOUSTON LONDON NEW YORK SAN ANTONIO SEATTLE WASHINGTON, DC

compliance with the covenants in the Resolution, including, but not limited to, covenants relating to the tax-exempt status of the Series 2023A Bonds.

Based on such examination, and in reliance on such representations, certifications and assumptions , it is our opinion that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Series 2023A Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and therefore the Series 2023A Bonds constitute valid and legally binding obligations of the Authority.

(2) The Series 2023A Bonds are payable from and secured by a first lien on and a pledge of the Pledged Revenues, as such term is defined in the Resolution. The Series 2023A Bonds are Reserve Fund Participants and are additionally secured by the Reserve Fund Participant Account of the Reserve Fund.

(3) Interest on the Series 2023A Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Series 2023A Bonds is not a specific preference item for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations for tax years beginning after December 31, 2022.

The rights of the owners of the Series 2023A Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Series 2023A Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Series 2023A Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the Authority, the Participants, and other parties upon which we have relied are determined to be inaccurate or incomplete or the Authority fails to comply with the covenants of the Resolution, interest on the Series 2023A Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Series 2023A Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

BRACEWELL

[CLOSING DATE]

We have acted as bond counsel for Gulf Coast Water Authority (the “Authority”) in connection with the bonds described as follows:

GULF COAST WATER AUTHORITY CONTRACT REVENUE BONDS (THOMAS S. MACKEY WATER TREATMENT PLANT EXPANSION), SERIES 2023B (TAXABLE), dated March 15, 2023, in the principal amount of \$4,700,000 (the “Series 2023B Bonds”).

The Series 2023B Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Series 2023B Bonds, the resolution adopted by the Board of Directors of the Authority on January 19, 2023 authorizing their issuance (the “Bond Resolution”), and a pricing certificate executed pursuant thereto (the “Pricing Certificate,” and collectively with the Bond Resolution, the “Resolution”). Capitalized terms not defined herein shall have the meanings ascribed thereto in the Resolution.

We have acted as bond counsel as bond counsel for the sole purpose of rendering an opinion letter with respect to the legality and validity of the Series 2023B Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data, or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Series 2023B Bonds. Our role in connection with the Authority’s Preliminary Official Statement and Official Statement has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Series 2023B Bonds, on which we have relied in giving our opinions. The transcript contains certified copies of certain proceedings of the Authority and the City Council of the City of Hitchcock, the City Council of the City of La Marque, the City Council of the City of League City, the Board of Directors of Galveston County Water Control and Improvement District No. 8, and the Board of Directors of Galveston County Water Control and Improvement District No. 12 (collectively, the “Participants”); customary certificates of officers, agents, and representatives of the Authority, the Participants and other public officials; and other certified showings relating to the authorization and issuance of the Series 2023B Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we executed Bond No. I-1 of this issue.

In providing the opinions set forth herein, we have relied on representations of the Authority, the Authority’s financial advisor, the Participants, and other parties involved with the issuance of the Series 2023B Bonds with respect to matters solely within the knowledge of such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Resolution.

Bracewell LLP

T: +1.713.223.2300 F: +1.800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
bracewell.com

AUSTIN CONNECTICUT DALLAS DUBAI HOUSTON LONDON NEW YORK SAN ANTONIO SEATTLE WASHINGTON, DC

Based on such examination, and in reliance on such representations, certifications, and assumptions, it is our opinion that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Series 2023B Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and therefore the Series 2023B Bonds constitute valid and legally binding obligations of the Authority.

(2) The Series 2023B Bonds are payable from and secured by a first lien on and a pledge of the Pledged Revenues, as such term is defined in the Resolution. The Series 2023B Bonds are Reserve Fund Participants and are additionally secured by the Reserve Fund Participant Account of the Reserve Fund.

The rights of the owners of the Series 2023B Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally and may be limited by general principles of equity which permit the exercise of judicial discretion.

We observe that interest on the Series 2023B Bonds is not excludable from gross income for federal income tax purposes under existing law. We express no opinion as to any federal, state, or local tax consequences resulting from the receipt or accrual of interest on or acquisition, ownership or disposition of the Series 2023B Bonds.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.