

OFFICIAL STATEMENT DATED JANUARY 9, 2024

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF SOUTH SHORE HARBOUR MUNICIPAL UTILITY DISTRICT NO. 7, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS – Qualified Tax-Exempt Obligations.”

NEW ISSUE – Book-Entry-Only

RATINGS: S&P (Underlying).....“A”

S&P (Insured).....“AA”

See “MUNICIPAL BOND RATINGS” and “MUNICIPAL BOND INSURANCE”

\$4,200,000

SOUTH SHORE HARBOUR MUNICIPAL UTILITY DISTRICT NO. 7

(A Political Subdivision of the State of Texas,
located within Galveston County)

UNLIMITED TAX BONDS, SERIES 2024

Dated Date: Date of Delivery (defined herein)

Due: September 1, as shown below

The \$4,200,000 South Shore Harbour Municipal Utility District No. 7 Unlimited Tax Bonds, Series 2024 (the “Bonds”), are obligations solely of South Shore Harbour Municipal Utility District No. 7 (the “District”), and are not obligations of the State of Texas, Galveston County, League City, or any entity other than the District.

Principal of the Bonds is payable at maturity or earlier redemption by the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (sometimes hereinafter called the “Paying Agent” or the “Registrar”). Interest accrues from the date of delivery of the Bonds to the Initial Purchaser (expected to be on or about February 15, 2024), and is payable beginning September 1, 2024, and each March 1 and September 1 (each an “Interest Payment Date”) thereafter until the earlier of maturity or redemption, and will be calculated on the basis a 360-day year consisting of twelve 30-day months. The Bonds are fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

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



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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (Sept. 1)	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP 84019R ^(c)	Due (Sept. 1)	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP 84019R ^(c)
2025	\$410,000	3.000%	3.000%	JZ7	2030 ^(d)	\$480,000	3.000%	3.000%	KE2
2026	420,000	3.000%	3.000%	KA0	2031 ^(d)	490,000	3.000%	3.000%	KF9
2027	440,000	3.000%	3.000%	KB8	2032 ^(d)	515,000	3.000%	3.000%	KG7
2028	450,000	3.000%	3.000%	KC6	2033 ^(d)	530,000	3.000%	3.000%	KH5
2029	465,000	3.000%	3.000%	KD4					

(a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest net effective interest rate bid to purchase the Bonds, bearing interest as shown, at a price of 99.401619% of par to the date of delivery, resulting in a net effective interest rate to the District of 3.103930%.

(b) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Initial Purchaser (hereinafter defined), and may subsequently be changed.

(c) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers.

(d) Bonds maturing on September 1, 2030, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2029, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. Investment in the Bonds is subject to special investment considerations described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon, Wallace & Philbin LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about February 15, 2024 (the “Date of Delivery”).

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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 purposes of, and as that term is defined in, SEC Rule 15c2-12, as amended.

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

SALE AND DISTRIBUTION OF THE BONDS

Award and Marketing of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest net effective interest rate bid, which was tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser”), to purchase the Bonds bearing the interest rates shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof at a price of 99.401619% of the principal amount thereof, to the Date of Delivery, which resulted in a net effective interest rate of 3.103930% as calculated pursuant to Chapter 1204, Texas Government Code.

Prices and Marketability

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

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

No Litigation

As a condition to delivery of the Bonds, the District will furnish a certificate executed by the President and Secretary of the District that no litigation is pending or, to the knowledge of the District’s certifying officers, threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the titles of the present officers and directors of the Board of Directors of the District.

Securities Laws

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

MUNICIPAL BOND RATINGS

The District has made application to Standard and Poor’s Financial Services LLC, a business unit of S&P Global Ratings (“S&P”), for an underlying rating on the Bonds and S&P has assigned a rating of “A.” Any explanation of the significance of such rating may be obtained from the rating service furnishing the rating. There is no assurance that any rating given to the Bonds will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward change or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold the Bonds.

S&P has assigned a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”). An explanation of the rating may be obtained from S&P. See “MUNICIPAL BOND INSURANCE.”

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2023 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$502.8 million, \$217.0 million and \$285.8 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

MUNICIPAL BOND INSURANCE RISK FACTORS

In the event the bond insurer (the “Bond Insurer”) becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

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

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

OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

The Issuer	South Shore Harbour Municipal Utility District No. 7, Galveston County, Texas (the “District”), is a political subdivision of the State of Texas (the “State”) located in Galveston County, Texas. See “THE DISTRICT.”
Description	\$4,200,000 Unlimited Tax Bonds, Series 2024, are dated February 15, 2024, and mature on September 1 in each of the years and in the principal amounts indicated on the cover page of this Official Statement (the “Bonds”). The Bonds are issued as serial bonds maturing annually on September 1, 2025 through 2033, both inclusive. Interest accrues from the Date of Delivery of the Bonds to the Initial Purchaser (expected to be on or about February 15, 2024), and is payable beginning September 1, 2024, and each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. The Bonds maturing on or after September 1, 2030 are subject to redemption, in whole or from time to time in part, prior to their scheduled maturities, on September 1, 2029, or on any date thereafter, at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof so called for redemption to the date of redemption. See “THE BONDS.”
Book-Entry Only	The Bonds are initially issuable in book-entry only form and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, which will act as securities depository. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. See “BOOK-ENTRY-ONLY SYSTEM.”
Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “THE BONDS – Source and Security for Payment,” “TAX DATA – Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS – Maximum Impact on District Tax Rates.”
Payment Record.....	The District has previously issued \$43,810,000 of unlimited tax bonds, \$14,585,000 of which remains outstanding as of the date of this Official Statement (the “Outstanding Bonds”). The District has never defaulted on the timely payment of the principal or interest on its previously issued bonds.
Use of Proceeds	Proceeds of the sale of the Bonds will be used by the District to (1) repair existing bulkhead failure and provide shoreline protection of Austin Lake, (2) repair a security fence around Tucker Lake and (3) to pay for engineering, survey, and testing of the above facilities, fees, and expenses for bond issuance. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Municipal Bond Rating and Insurance.....

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned an underlying rating of “A” to the Bonds. The District will pay the cost of the S&P rating associated with the underlying rating of the Bonds. An explanation of the rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgement, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

S&P has assigned a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”). An explanation of the rating may be obtained from S&P. See “MUNICIPAL BOND RATINGS,” “MUNICIPAL BOND INSURANCE,” and “MUNICIPAL BOND INSURANCE RISK FACTORS.”

Qualified Tax-Exempt Obligation ..

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

THE DISTRICT

Description

South Shore Harbour Municipal Utility District No. 7, a political subdivision of the State, was created by an Order of the Texas Commission on Environmental Quality (the “TCEQ”) on July 24, 2001, and operates as a municipal utility district pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 471.8095 acres of land. The District is located in northern Galveston County and lies wholly within the corporate limits of the City of League City (“League City” or the “City”). See “THE DISTRICT – Description.”

Authority for Issuance

At an election held within the District on May 7, 2005, the District voters authorized the issuance of \$26,550,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the fifth issuance of bonds from such authorization. After the issuance of the Bonds, \$6,275,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized by unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ dated November 30, 2023. See “THE DISTRICT – General.”

Development of the District.....	The District is one of multiple municipal utility districts that served the 2,171-acre master planned South Shore Harbour Development (“South Shore Harbour” or “Development”), which abuts the south shore of Clear Lake, an inland saltwater bay providing access to Galveston Bay and the Gulf of Mexico. Of the original seven (7) Districts, only South Shore Harbour MUDs No. 6 and No. 7 remain active. The other districts have been dissolved and the property annexed into the City of League City. The District is located approximately 22 miles south of the central business district of Houston along State Highway (SH) 96, which provides access to League City and Interstate Highway 45, the freeway connecting Houston and Galveston. The District is bounded on the north by Galveston County Municipal Utility District No. 3 and on the south by State Highway (SH) 96. The District consists of 471.8095 gross acres of land of which 48.7 acres have been designated for commercial and multifamily and 315.7 acres for residential construction. The remaining approximately 107.41 acres has been dedicated as easements, open space and streets. Development within the District is substantially complete. The District contains approximately 1,187 single-family residences on 1,187 developed lots. The District also contains two 12,000 sq. ft. medical/professional buildings on 2.4 commercial acres and an 82,000 sq. ft. Kroger grocery store with 24,000 sq. ft. of retail and pad sites.
Legal Opinion	Bacon, Wallace & Philbin LLP, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Dallas, Texas
Engineer.....	A&S Engineers, Inc., Houston, Texas
Financial Advisor	RBC Capital Markets, LLC, Houston Texas

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS; ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

SUMMARY OF SELECTED FINANCIAL INFORMATION (UNAUDITED)

2023 Certified Assessed Valuation	\$530,887,957 ^(a)
Direct Debt (Includes the Bonds)	\$18,785,000
Estimated Overlapping Debt	23,226,758 ^(b)
Direct and Estimated Overlapping Debt	<u>\$42,011,758</u>
Operations Fund (as of October 10, 2023)	\$483,600 ^(c)
Debt Service Fund Balance (as of October 10, 2023)	\$3,193,873 ^(d)
Capital Projects Fund (as of October 10, 2023)	\$15,406
Direct Debt Ratios:	
as a percentage of 2023 Certified Assessed Valuation	3.54%
Direct and Estimated Overlapping Debt Ratios	
as a percentage of 2023 Certified Assessed Valuation	7.91%
2023 Tax Rate per \$100 of Assessed Valuation	
Debt Service Tax	\$0.3800
Maintenance Tax	0.0312
Total	<u>\$0.4112</u>
Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (Calendar Years 2024 – 2033)	\$2,253,429
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (Calendar Year 2033)	\$2,334,800
Tax Rate per \$100 of Assessed Valuation Required to pay the Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds at 95% Tax Collection Based Upon 2023 Certified Assessed Valuation	\$0.45
Tax Rate per \$100 of Assessed Valuation Required to pay Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds at 95% Tax Collection Based Upon 2023 Certified Assessed Valuation	\$0.47

(a) As certified by the Galveston Central Appraisal District (“GCAD”). See “TAX DATA” and “TAXING PROCEDURES.”

(b) Provided by the Texas Municipal Advisory Council. See “SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt Statement.”

(c) Based on ending balance provided by the District’s bookkeeper for period ended October 10, 2023.

(d) Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

OFFICIAL STATEMENT
relating to
\$4,200,000
SOUTH SHORE HARBOUR MUNICIPAL UTILITY DISTRICT NO. 7
UNLIMITED TAX BONDS
SERIES 2024

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by South Shore Harbour Municipal Utility District No. 7 (the “District”), of its \$4,200,000 Unlimited Tax Bonds, Series 2024 (the “Bonds”). There follows in this Official Statement descriptions of the Bonds and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District c/o Bacon, Wallace & Philbin LLP, Houston, Texas, upon request and payment of the costs of duplication therefor.

THE DISTRICT

General

South Shore Harbour Municipal Utility District No. 7 (the “District”), a municipal utility district created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the “Commission”), on July 24, 2001, operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission. The District was one of multiple municipal utility districts (the “MUDs”) which comprise the 2,171-acre South Shore Harbour development (“South Shore Harbour” or the “Development”), a project of South Shore Harbour Development, Limited, a Texas limited partnership composed of American National Insurance Company, a Texas corporation headquartered in Galveston, Texas (the sole limited partner), and ANREM Corporation, also a Texas corporation (the sole general partner). South Shore Harbour is located within the corporate limits of the City of League City (the “City” or “League City”) which retains certain controls over utility construction and operation as well as the sale of bonds serving the Development (see “UTILITY AGREEMENT BETWEEN THE DISTRICT AND LEAGUE CITY”). According to the U.S. Census Bureau, the population of the City of League City is estimated to be 115,418 as of 2022. The City operates in accordance with a Home Rule Charter adopted on March 27, 1962, as amended.

League City is located approximately five miles south of the Houston city limits adjacent to Interstate Highway 45 (“IH 45”), the principal traffic artery between Houston and the City of Galveston. South Shore Harbour lies in the northeast quadrant of League City adjacent to Clear Lake, which forms the northern boundary of the Development. FM 518 and FM 2094 which cross the Development west to east and divides it into approximately one third/two thirds segments provides direct access to the League City business district and, via IH 45, to the business districts of both Houston and Galveston, 25 miles and 30 miles distant, respectively. IH 45 intersects FM 518 approximately one mile west of the League City business district. See “VICINITY MAP” and “DISTRICT MAP.” The District is bounded on the north by FM 2094, on the south by FM 518 and on the west by South Shore Boulevard. The District is empowered to, among other things, purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Under certain limited circumstances, the District also is authorized to construct, develop and maintain park and recreational facilities. In addition, the District is authorized to establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to provide such facilities and services to the customers of the District.

Status of Development

The District consists of 471.8095 gross acres of land of which 48.7 acres have been designated for commercial and multifamily and 315.7 acres for residential construction. The remaining approximately 107.41 acres has been dedicated as easements, open space and streets. Development within the District is substantially complete. The District contains approximately 1,187 single-family residences on 1,187 developed lots. The District also contains two 12,000 sq. ft. medical/professional buildings on 2.4 commercial acres and an 82,000 sq. ft. Kroger grocery store with 24,000 sq. ft. of retail and pad sites.

Community Facilities

Churches: Churches of most major denominations are located in League City.

Employment Centers: Local employment centers near the District are located in League City, Dickinson, and Galveston and in Houston adjacent to Clear Lake. Significant employment centers located in the area include National Aeronautics and Space Administration (“NASA”) located directly across Clear Lake from the District; Bayport Industrial Complex located some 12 miles northeast of the District, home to over 40 industrial companies; industrial and chemical plants in the Texas City area located approximately 10 miles south of the District; chemical, petrochemical, and other large industries located in Pasadena, Deer Park, and Baytown, from 5 to 15 miles from the District.

Other Utilities: Texas-New Mexico Power Company provides Electric service to the District, and CenterPoint Energy - Entex provides gas service. Verizon Communications provides telephone service. Xfinity/Comcast provides internet and cable service, and Frontier also provides internet service.

Medical Facilities: Clear Lake Regional Medical Center, a privately-owned hospital offering 24-hour emergency service, is located some six miles northwest of the District, and Houston Methodist Clear Lake Hospital is located on NASA Road 1 approximately five miles north of the District, the latter of which is going through a large expansion in its Breast Care Center and Orthopedics and Sports Medicine facility. In addition, Mainland Center Hospital is located in Texas City approximately ten miles south of the District. University of Texas Medical Branch (“UTMB”) also has a facility on Interstate 45, approximately 5 miles from the District. There is a Next Level Urgent Care located in the District.

Fire and Police Protection: League City provides ambulance service, fire and police protection.

Recreational Facilities: South Shore Harbour Development, Ltd. has built a neighborhood recreational facility which offers a swimming pool, recreational building, and playground equipment and is for the exclusive use of residents of the South Shore Village Subdivision who pay annual fees for the use of the facilities. In addition, the District’s previous developer, General Homes, constructed a recreational facility which includes a swimming pool, bathhouse, a covered meeting area, two lighted tennis courts, a baseball field, and playground equipment. The amenity section is for the exclusive use of Meadow Bend Subdivision residents, who pay an annual fee for the use of these facilities. District residents also have access to a city owned municipal complex containing a swimming pool, civic center recreation building, and public library located approximately two miles from the District. In addition, South Shore Harbour is a recreational oriented development which provides a private golf course and water-related sports facilities to residents and others. The Marina, Phase I, located outside the boundaries of the District, currently provides 1,000 boat slips and docking and fuel facilities. The Marina office and a yacht sales office are located adjacent to the Marina. The 27-hole golf course and country club, located outside the boundaries of the District, is available to residents of the District and non-residents on a membership basis.

Schools: The District is located in Clear Creek Independent School District which provides bus service to students living over two miles from their school campus. Students in the District attend the following state-accredited schools:

<u>School</u>	<u>Approximate Distance from District</u>
Goforth Elementary	2.2 Miles
Hyde Elementary	2.0 Miles
Bayside Intermediate	1.9 Miles
League City Intermediate	2.6 Miles
Clear Falls High.....	1.5 Miles

Shopping Facilities: Neighborhood shopping facilities, including such retail establishments as supermarkets, pharmacies, restaurants and retail outlets, are available in League City outside the boundaries of the District. The nearest regional shopping center, Baybrook Mall, is located on IH 45 approximately seven miles northwest of the District and includes four major department stores and approximately 150 retail outlets and specialty shops. In addition, a Randall's Shopping Center is located near the intersection of South Shore Blvd. and Marina Bay Drive, a Kroger inside of the District at South Shore Blvd. and League City Pkwy, as well as an H-E-B just south of the District across the street from the Kroger. There are also several fast casual restaurants, bank branches, medical offices, and other retail operations in the District. Other retail within 3 miles of South Shore Harbour includes a Target Super Store, a Home Depot, and a Wal-Mart Super Store.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated February 15, 2024, with interest accruing from the date of delivery of the bonds to the Initial Purchaser and payable on September 1, 2024, and on each March 1 and September 1 thereafter (each an "Interest Payment Date"), until the earlier of maturity or prior redemption. Interest on the Bonds initially accrues from February 15, 2024, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Record Date

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

Authority for Issuance

At an election held within the District on May 7, 2005, voters of the District authorized a total of \$26,550,000 in unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer, and drainage facilities. The Bonds constitute the fifth issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$6,275,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the Texas Commission on Environmental Quality ("Commission" or "TCEQ") dated November 30, 2023.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds (hereinafter defined) and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “TAXING PROCEDURES”. Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the State of Texas (the “State”), Galveston County, Texas, the City of League City, Texas, or any political subdivision or agency other than the District.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2030, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2029, or any date thereafter, at a price equal to the principal amount thereof to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.”

Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent for payment of the principal of the Bonds or portions thereof to be redeemed to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board of Directors of the District (“Board”) has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial paying agent/registrar for the Bonds (“Paying Agent” or “Registrar”). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “BOOK-ENTRY-ONLY SYSTEM.”

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner’s income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.” So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent. If the Paying Agent is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent’s records and act in the same capacity as the previous Paying Agent. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District’s voters have authorized the issuance of a total of \$26,550,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$6,275,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District’s voters have also authorized a total of \$26,550,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$25,715,000 unlimited tax refunding bonds authorized but unissued.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District’s voters or the amount ultimately issued by the District. See “INVESTMENT CONSIDERATIONS – Future Debt.”

Dissolution and Consolidation

Under Texas law, the District may be abolished and dissolved at any time by an ordinance adopted by two-thirds vote of the City Council of League City. Thereafter, all properties and assets of the District not already conveyed to the City would vest in League City, which would assume and be liable for the payment of all bonds and other obligations of the District. The District can make no representation that League City will ever abolish and dissolve the District nor as to League City’s ability to pay the debt requirements of the District. The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the districts or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other’s bonds, notes and other obligations. If each district assumes the other’s bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other’s bonds, notes and other obligations, each district’s taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See “INVESTMENT CONSIDERATIONS – Registered Owners’ Remedies and Bankruptcy.”

Defeasance

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the 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 District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. Discontinuance of the DTC book-entry-only system by the District may require consent of DTC Participants under DTC Operational Arrangements. 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.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but District takes no responsibility for the accuracy thereof.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations solely of the District and not obligations of the State, Galveston County, the City of League City or any other entity, are secured by the levy of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes, may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS – Source and Security for Payment," and "– Remedies in Event of Default."

Potential Effects of Oil Price Fluctuations on the Houston Area

The economy of the Greater Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their collateral impact to other industries could result in declines in the demand for residential and commercial property in the Greater Houston area and could reduce or negatively affect property values within the District. The District cannot predict the impact that negative conditions in the oil and gas industry could have on property values in the District.

Cybersecurity

The District and their consultants are dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. The 2023 Certified Assessed Valuation of property located within the District (see "TAX DATA") is \$530,887,957. After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$2,334,800 (2033) and the Average Annual Debt Service Requirements will be \$2,253,429 (2024 through 2033, inclusive). Assuming no increase to or decrease from the 2023 Certified Assessed Valuation, and no use of other District funds, tax rates of \$0.47 and \$0.45 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. See "TAX DATA – Tax Rate Calculations."

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within

the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years following the date of recordation of the deed issued at foreclosure and all other property within six (6) months following the date of recordation of the deed issued at foreclosure. See "TAXING PROCEDURES."

Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes on two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES – District's Rights in the Event of Tax Delinquencies."

Recent Extreme Weather Events

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

The greater Houston area has experienced 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. According to the Engineer, the District experienced no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the City's system serving the District did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

Riverine (or Fluvial) Flood.

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

In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood.

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

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Beneficial Owners may further be limited by a State statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$6,275,000 principal amount of unlimited tax bonds authorized but unissued for water, sanitary sewer and drainage facilities, the \$25,715,000 principal amount of unlimited tax refunding bonds, and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS – Legal Ability to Issue Additional Debt.”

Continuing Compliance with Certain Covenants

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

Marketability

The District has no understanding (other than the initial reoffering yields) with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. There is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS.”

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the security of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

Environmental Regulations

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

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

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

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

While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a “moderate” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB Area to reach attainment with the ozone 35 standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

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

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

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

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

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

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USE AND DISTRIBUTION OF BOND PROCEEDS

The use and distribution of the proceeds from the sale of the Bonds, as approved by the TCEQ, is set forth below.

CONSTRUCTION COSTS		District's Share
A	District Items	
	1. Austin Lake Shoreline Repair	\$2,948,500
	2. Tucker Lake Fence	163,591
	3. Contingencies	311,209
	4. Engineering and Technical Services	350,000
	Total District Items	\$3,773,300
NET CONSTRUCTION COSTS		\$3,773,300
NON-CONSTRUCTION COSTS		
A	Legal Fees	\$132,000
B	Fiscal Agent Fees	84,000
C	Bond Discount ^(a)	25,132
D	Bond Issuance Expenses	20,000
E	Bond Application Report Costs	50,000
F	Attorney General Fee	4,200
G	TCEQ Bond Issuance Fee	10,500
H	Contingency ^(a)	100,868
TOTAL NONCONSTRUCTION		\$426,700
TOTAL BOND ISSUE REQUIREMENT		\$4,200,000

^(a) Contingency represents the difference in the estimated and actual amounts of the Bond Discount after the sale of the Bonds.

In the instance that approved estimated amounts exceed actual costs; the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

SELECTED FINANCIAL INFORMATION (UNAUDITED)

General

2023 Certified Assessed Valuation	\$530,887,957 ^(a)
Direct Debt (Includes the Bonds)	\$18,785,000
Estimated Overlapping Debt	<u>23,226,758</u>
Direct and Estimated Overlapping Debt	<u>\$42,011,758</u>
Direct Debt Ratios:	
as a percentage of 2023 Certified Assessed Valuation	3.54%
Direct and Estimated Overlapping Debt Ratios	
as a percentage of 2023 Certified Assessed Valuation	7.91%

^(a) As certified by the Galveston Central Appraisal District ("GCAD"), see "TAX DATA" and "TAXING PROCEDURES."

District Bonds Authorized but Unissued

Date of Authorization	Purpose	Authorized	Issued To Date ^(a)	Amount Unissued
May 7, 2005	Water, Sewer & Drainage	\$26,550,000	\$20,275,000	\$6,275,000
May 7, 2005	Refunding (Art. XVI, Sec. 59)	26,550,000	835,000	25,715,000

^(a) Assumes issuance of the Bonds.

Cash and Investment Balances (Unaudited as of October 10, 2023)

Operating Fund	Cash and Temporary Investments	\$483,600
Debt Service Fund Balance ^(a)	Cash and Temporary Investments	\$3,193,873
Capital Projects Fund	Cash and Temporary Investments	\$15,406

^(a) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District's portfolio.

Investment in U.S. Government Obligations, bank Certificates of Deposit and money market funds are generally representative of the District's investment practices. State law requires the District to report its investments each calendar quarter and upon the conclusion of each fiscal year. The District is required by state law to mark its investments to market price in these reports for the purpose of compliance with applicable accounting principles concerning the contents of the District's audited financial statements.

Estimated Overlapping Debt Statement

The following table indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the assessed valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information and no person is entitled to rely upon such information as being accurate or complete. Further, certain of the entities listed below may have issued additional bonds since the date cited.

Taxing Body (a)	Direct Debt	As of	Percent Overlapping Direct Debt	Overlapping Direct Debt
Clear Creek ISD	\$993,980,000	10/31/2023	1.40%	\$13,915,720
Galveston County	174,315,041	10/31/2023	0.87%	1,516,541
League City, City of	239,095,000	10/31/2023	3.26%	7,794,497
Total Overlapping Debt:				\$23,226,758
The District:				\$18,785,000
Total Direct and Overlapping Debt:				\$42,011,758
Total Direct and Overlapping Debt Percent of AV:				7.91%

DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements on the Bonds and the Outstanding Bonds.

Year End 12/31	Outstanding Debt Service	The Bonds				Total
		Principal Due 9/1	Interest Due 3/1	Interest Due 9/1	Total Principal & Interest	
2024	\$1,736,345.00	\$0.00	\$0.00	\$68,600.00	\$68,600.00	\$1,804,945.00
2025	1,738,755.00	410,000.00	63,000.00	63,000.00	536,000.00	2,274,755.00
2026	1,747,595.00	420,000.00	56,850.00	56,850.00	533,700.00	2,281,295.00
2027	1,747,345.00	440,000.00	50,550.00	50,550.00	541,100.00	2,288,445.00
2028	1,756,930.00	450,000.00	43,950.00	43,950.00	537,900.00	2,294,830.00
2029	1,764,430.00	465,000.00	37,200.00	37,200.00	539,400.00	2,303,830.00
2030	1,768,637.50	480,000.00	30,225.00	30,225.00	540,450.00	2,309,087.50
2031	1,779,500.00	490,000.00	23,025.00	23,025.00	536,050.00	2,315,550.00
2032	1,780,400.00	515,000.00	15,675.00	15,675.00	546,350.00	2,326,750.00
2033	1,788,900.00	530,000.00	7,950.00	7,950.00	545,900.00	2,334,800.00
	<u>\$17,608,837.50</u>	<u>\$4,200,000.00</u>	<u>\$328,425.00</u>	<u>\$397,025.00</u>	<u>\$4,925,450.00</u>	<u>\$22,534,287.50</u>

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TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds, the Remaining Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption "THE BONDS – Source of Payment." The Board is also authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have authorized the levy of such a maintenance tax in the maximum amount of \$0.20 per \$100 of assessed valuation, and the District levied a maintenance tax of \$0.0312 per \$100 of Assessed Valuation in 2023. See "TAX DATA – Maintenance Tax" and – "Historical Values and Tax Collection History."

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100%, and, under certain circumstances, the surviving spouse of such veteran, is entitled to the exemption for the full amount of the residential homestead. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. For the 2023 tax year, the District has granted a \$48,000 exemption for residents who are disabled or 65 and older.

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

Freeport Goods Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain

taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Galveston County may designate all or part of the area within the District as a reinvestment zone. The City of League City also may designate property within its boundaries or its extraterritorial jurisdiction as a reinvestment zone. Thereafter, Galveston County, the District, or the City of League City at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements need not be the same.

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the “Property Tax Code”) establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors elected by the governing bodies of cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district and of the county. The District is entitled to vote upon and participate in the selection of members of the board of directors of the GCAD. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Galveston County, including the District, are included in the GCAD. GCAD is responsible for appraising property within the District, subject to review by the Galveston Central Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Property Tax Code.

Under current Texas law, the District is responsible for the levy and collection of its taxes and will continue to be so responsible unless the Board of Directors of the District, or the qualified voters of the District or of Galveston County at an election held for such purpose, determines to transfer such functions to the GCAD or another taxing unit.

Valuation of Property for Taxation

Generally, all taxable property in the District (other than any qualifying agricultural and timberland) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income, are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner’s business. Implementation of this amendment could reduce the assessed value of builder inventory within the District if any single-family residential development and building were to occur. See “TAX DATA – Principal Taxpayers” below. The Property Tax Code requires each appraisal district to implement a plan

providing for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisal will be utilized by the GCAD or whether reappraisals will be conducted on a zone or county-wide basis.

The Property Tax Code permits land designated for agricultural use or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use, land and timberland, prior to the loss of the designation.

The chief appraiser must give written notice on May 15, or as soon thereafter as practicable to each owner if the appraised value of his property is greater than it was in the preceding year, if the appraised value of the property is greater than the value rendered by the property owner, or if the property was not on the appraisal roll in the preceding year. In addition, the chief appraiser must give written notice to each property owner whose property was reappraised in the current year or if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice with the appraisal review board may appeal the final determination by the appraisal review board by filing suit in Texas district court. Prior to such appeal and prior to the delinquency date, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property. The rate of taxation is set by the Board based upon the assessed valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

Disaster Exemption

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

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

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation. In tax year 2023, the Board qualified the District as a Developing District.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based upon a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The owner of a residential homestead property who is a person sixty-five (65) years of age or older or under a disability for the purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year upon the property. The District's tax lien is on a parity with the tax liens of the other jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit at any time after taxes become delinquent to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's right to redeem the property within two years of foreclosure, or by bankruptcy proceedings which restrain or stay the collection of a taxpayer's debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX DATA

Classification of Assessed Valuation

The following table illustrates the composition of property located within the District during the past five years.

	2023	2022	2021	2020	2019
	Assessed Valuation	Assessed Valuation	Assessed Valuation	Assessed Valuation	Assessed Valuation
Land	\$63,364,717	\$57,690,740	\$58,441,640	\$59,942,850	\$59,942,850
Improvements	526,912,606	450,105,168	408,468,770	361,958,064	326,015,621
Personal Property	7,142,520	7,194,520	6,981,624	7,962,820	7,923,690
	\$597,419,843	\$514,990,428	\$473,892,034	\$429,863,734	\$393,882,161
Exemptions	(66,531,886)	(39,637,976)	(26,850,475)	(23,823,378)	(18,067,282)
Total	\$530,887,957	\$475,352,452	\$447,041,559	\$406,040,356	\$375,814,879

Tax Collections

The following statement of tax collections set forth is the tax collections of the District for the past five tax years. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information obtained from records of the District's tax assessor/collector. Reference is made to such records for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Levy	Collections as of Tax Year End		Collections Through October 31, 2023	
				Amount	%	Amount	%
2019	\$375,814,879	\$0.38000	\$1,426,987	\$1,424,277	99.81%	\$1,426,091	99.94%
2020	406,040,356	0.38300	1,552,329	1,549,983	99.85%	1,552,241	99.99%
2021	447,041,559	0.38240	1,708,302	1,704,250	99.76%	1,707,835	99.97%
2022	475,352,452	0.37885	1,852,833	1,828,271	98.67%	1,847,433	99.71%
2023	530,887,957	0.41120	2,073,063	(a)	(a)	(a)	(a)

(a) In process of collections for 2023 tax year.

District Tax Rates

	2023	2022	2021	2020	2019
Debt Service Fund	\$0.38000	\$0.34715	\$0.35040	\$0.34000	\$0.34000
Maintenance & Operation	0.03120	0.03170	0.03200	0.04300	0.04000
Total	\$0.41120	\$0.37885	\$0.38240	\$0.38300	\$0.38000

Tax Rate Limitation

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

Maintenance: \$0.20 per \$100 of assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for operation and maintenance of the District and its improvements, if such maintenance tax is authorized by a vote of the District's electorate. The District's electors have authorized the levy of such a maintenance tax in the maximum amount of \$0.20 per \$100 of assessed valuation, and the District levied a maintenance tax of \$0.0312 per \$100 of Assessed Valuation in 2023. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future.

Principal Taxpayers

The following list of top ten principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2022 and 2023 certified tax rolls of the District, which reflect ownership as of January 1 of each year.

Taxpayer	Property Type	2023	2022
Centennial South Shore LP	Apartments	\$52,500,000	\$50,000,000
Kroger Texas LP	Grocery Store	9,569,800	8,900,000
PS LPT Properties Investors	Storage Units/Warehouses	7,665,000	8,690,500
Aquataina South Shore Borrower LLC	Strip Mall/Plaza	4,581,800	5,734,966
South Shore Lakes LLC	Commercial Building	4,321,200	5,456,560
Kroger #3400398	Grocery Store	3,699,770	3,352,040
McDonald's Real Estate Co.	Restaurant	1,949,999	1,650,000
AR Partners LLC	Commercial Land	1,895,070	1,895,070
Krupa Properties LLC	Commercial Land	1,625,000	1,800,000
JP Morgan Chase Bank Na	Bank	1,492,600	-
League City 2560 LLC	Commercial Building	-	1,707,650
		<hr/> \$89,300,239	<hr/> \$89,186,786
Percent of Assessed Valuation		16.82%	18.76%

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District occurs beyond the 2023 Certified Assessed Valuation. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and the sale of no additional bonds by the District except the Bonds.

Average Annual Debt Service Requirements (2024 – 2033)	\$2,253,429
Tax Rate of \$0.45 on the 2023 Certified Taxable Assessed Valuation produces.....	\$2,269,546

Maximum Debt Service Requirement (2033)	\$2,334,800
Tax Rate of \$0.47 on the 2023 Certified Taxable Assessed Valuation produces.....	\$2,370,415

Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all taxes levied upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see “DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Overlapping Entity</u>	<u>2023 Tax Rate per \$100 AV</u>
City of League City	\$0.396783
Galveston County	0.367587
Clear Creek ISD	0.974600
The District	<u>0.411200</u>
Total	\$2.150170

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MANAGEMENT OF THE DISTRICT

The District is governed by a Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms. Elections are held in May of even numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. Three of the five Directors currently reside within the District and all own property within the District.

Name	Position	Term Expires May
Steven Day	President	2026
Kim Gerry	Vice President	2024
Cindy Pratt	Secretary	2024
Mitch Peters	Deputy Secretary	2026
Holly Larsen	Director	2024

The District does not have a general manager but has contracted for services, as follows:

Bookkeeper – The District has engaged Protocol Bookkeeping, Inc. as the District’s Bookkeeper.

Tax Assessor/Collector – The tax assessor/collector for the District is the Galveston County Tax Office.

Consulting Engineer – The District has engaged the firm A&S Engineers, Inc., Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design of the System.

Bond Counsel and General Counsel – The District has engaged Bacon, Wallace & Philbin LLP, Houston, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The fees paid to Bond Counsel by the District for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds. See “LEGAL MATTERS” and “TAX MATTERS.”

Disclosure Counsel – The District has engaged McCall, Parkhurst & Horton L.L.P. (“Disclosure Counsel”), Dallas, Texas, as Disclosure Counsel in connection with the issuance of the Bonds. The fees paid to Disclosure Counsel by the District for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds. See “LEGAL MATTERS” and “TAX MATTERS.”

District Operator of Water and Sewer Facilities – The District’s water and sewer system is operated by the City of League City pursuant to the Utility Agreement between the District and League City. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND LEAGUE CITY.”

Auditor – The financial statements of the District as of August 31, 2022, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “Appendix A.”

Financial Advisor – The District has engaged RBC Capital Markets, LLC since 2003 as Financial Advisor to the District in connection with the issuance of the Bonds.

UTILITY SERVICE AGREEMENT BETWEEN THE DISTRICT AND LEAGUE CITY

Description

All land in the District is located within the city limits of the City of League City (“League City”). Shortly after the District was created, the District approved and ratified a Utility Agreement with League City dated March 7, 2000, (the “Utility Agreement”). The Utility Agreement obligates the District to acquire, construct, and extend water, sanitary sewer and drainage facilities (the “System”) to serve land in the District and, when completed in accordance with approved plans and specifications, the District is required to convey title to such utility facilities to League City. League City then operates and maintain such facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. League City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in League City. As specified

in the Utility Agreement, the District is a “City Service” district and no rebate of City taxes is made by the City.

The Utility Agreement’s significant provisions include the following:

- A. Limitation on the District’s Bond Indebtedness. The District cannot sell bonds if the ratio of the District’s indebtedness to its assessed valuation exceeds 25% during the first 24 months after the Bond Date and 15% thereafter.
- B. Bonds are required to be issued in series with the minimum limit on each series being \$2,500,000.
- C. The final maturity of all Bonds issued shall not exceed thirty (30) years from the date of the initial series of Bonds.
- D. The District shall, as specified herein, obtain the City’s approval prior to advertising the sale of its Bonds. Whenever possible, the District’s sale of bonds be scheduled so as not to conflict with a City sale of Bonds.
- E. For any Bond issue, the combined projected debt service tax rate, as defined in 31 TAC 293.59 shall not exceed \$1.50.
- F. For each Bond sale, the District shall demonstrate that, at final buildout, the District’s net direct debt as a percentage of current and estimated certified assessed value will not exceed eight and one-half percent (8 ½%).
- G. The District is required to obtain the City’s approval prior to the advertisement and sale of Bonds. Whenever the District requests such approval, the District will provide the City with a copy of the Engineering Report and will certify to the City that the District has complied with the above listed requirements.

The Utility Agreement provides that the District retains a security interest in the System to secure League City’s performance under the Utility Agreement until the District’s bonds have been discharged. The District will then execute a release of such security interest, and League City will then own the System free and clear.

The District has agreed to extend the System to serve future users as necessary so that ultimately all land owners in the District will be in a position to receive services from the System; however, the District’s obligation to extend the system is conditioned upon League City performing under the provisions of the Utility Agreement, the satisfaction of certain determinations of economic feasibility, governmental agency approvals and the ability of the District to sell bonds.

THE SYSTEM

Water, Sanitary Sewer, and Drainage System

The System has been designed to be in conformity with the then current requirements of the Texas Department of Health, the Commission, Galveston County, and League City. Facilities to serve the District have been planned to be integral components of the overall League City master plan for water, wastewater and storm drainage facilities. As System components are completed and accepted by League City, such components, after being acquired by the District, will be conveyed to League City which subsequently will own, operate and maintain the System as outlined in the Utility Agreement.

Source of Water Supply: Water supply for League City is obtained, in part, from the City of Houston pursuant to a long-term contract and delivers it to League City via a 39-inch transmission line to a point on IH 45 some five miles from South Shore Harbour. Past projects of the other South Shore Harbour Development District have extended major water trunk lines close to the District. Additional trunk lines have been extended by the City of League City and the District. Thus, the District is currently connected to the cities trunk line system and is looped to other city lines.

Source of Wastewater Treatment: The District has constructed a lift station, force main and gravity trunk sewer to connect to the City of League City’s regional sewer system, which flows to the city’s Dallas Salmon Wastewater Plant, its primary wastewater plant. This plant has sufficient capacity to serve the District through build out.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1%

chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. The District's drainage system has been designed and constructed to all current standards.

None of the developable acreage within the District is located within the 100-year flood plain. Additionally, the District's storm water drainage system has been designed and constructed in accordance with current applicable regulatory standards for a development of this size and location.

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinions of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and binding obligations of the District. The District will also furnish the approving legal opinions of Bond Counsel to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State. The legal opinions of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District. Bond Counsel's opinions will also address the matters described below under the caption "TAX MATTERS." Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds. Bond Counsel acts as counsel for the District on matters other than the issuance of bonds.

In its capacity as Bond Counsel, Bacon, Wallace & Philbin LLP, has reviewed the information appearing in this Official Statement under the captions "THE BONDS," "TAXING PROCEDURES," "THE DISTRICT – Authority" and – "Management of the District – Counsel," "LEGAL MATTERS – Legal Opinions," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes the procedures, law and documents referred to therein and conforms to the requirements of applicable laws and ordinances of the City of League City, Texas, with regard to the sale of the Bonds. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has Bond Counsel conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of the information contained in this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to, the accuracy or completeness of any of the other factual information contained herein.

No Arbitrage

The District will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986 (the "Code") and the regulations prescribed from time to time thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District have been authorized to certify to the facts, circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

No Material Adverse Change

The obligations of the Initial Purchaser to take up and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the District subsequent to the date of sale from that set forth in the Official Statement, as it may have been finalized, supplemented or amended through the date of sale. If the Initial Purchaser elects to purchase municipal bond guaranty insurance on the Bonds, the rating of the insurer's creditworthiness by any rating agency does not and will not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not and will not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Initial Purchaser of its obligations to take up and pay for the Bonds.

No-Litigation Certificate

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, of which the District has notice, either in state or federal courts, contesting or attacking the Bonds; to restrain or enjoin the issuance, execution or delivery of the Bonds; which would affect the provisions made for the payment of or security for the Bonds; which would in any manner question the authority or proceedings for the issuance, execution, or delivery of the Bonds; or which would affect the validity of the Bonds.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Bacon, Wallace & Philbin LLP, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes; and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included in the alternative minimum taxable income of individuals under section 57(a)(5) of the Code or, except as described below, corporations. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate, and (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matter. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgement based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree

with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for the Bonds, as stated on the cover of the Official Statement, may be less than the principal amount thereof (the "Original Issue Discount Bonds"). As such, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds.

Under Existing Law, such an owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period for which such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount 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 (a) 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 (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates, and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a “financial institution” allocable to tax-exempt obligations, other than “specified private activity bonds,” which are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business which is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action which would assure, or to refrain from such action which would adversely affect, the treatment of the Bonds as “qualified tax-exempt

obligations.” Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded, however, the Internal Revenue Service could take a contrary view. Were the Internal Revenue Service to conclude that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be “qualified tax-exempt obligations.”

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Galveston Central Appraisal District and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below under the caption “Certification of Official Statement.” The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. The financial statements of the District as of August 31, 2022, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A.”

Consultants

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the section captioned “THE SYSTEM” has been provided by A&S Engineers, Inc., Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

The information contained in this Official Statement relating to the assessed valuations of property generally and, in particular, that information concerning principal taxpayers, tax collection rates and valuations contained in the sections captioned “TAX DATA” and “SELECTED FINANCIAL INFORMATION” has been provided by the Galveston Central Appraisal District and the Galveston County Tax Office.

Updating of Official Statement

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

Certification of Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and

data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District is found in the sections titled “SELECTED FINANCIAL INFORMATION” (except “Estimate of Overlapping Debt Statement”) and “TAX DATA” and in APPENDIX A (Independent Auditor’s Report and Financial Statements and certain supplemental schedules). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2023. Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report becomes available. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”).

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

Event Notices

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

Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the "Rule"). The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement only if (1) the amendment is made in connection with a change in circumstances that arise from a change in legal requirements, change in law, or change in the identity, nature, or status of the District; (2) the agreement, as amended, would have complied with SEC Rule 15c2-12 at the date of sale of the Bonds, taking into account any amendments or interpretations of the SEC Rule 15c2-12 as well as any change in circumstances; and (3) the District receives an opinion of nationally recognized bond counsel to the effect that the amendment does not materially impair the interests of the holders and beneficial owners of the Bonds. If any such amendment is made, the District will include in its next annual update an explanation in narrative form of the reasons for the change and its impact on the type of operating data or financial information being provided.

Compliance with Prior Undertakings

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

This Official Statement is duly approved by the Board of Directors of the District as of the date specified on the first page hereof.

/s/ _____
Steven Day
President, Board of Directors
South Shore Harbour Municipal Utility District No. 7

ATTEST:

/s/ _____
Cindy Pratt
Secretary, Board of Directors
South Shore Harbour Municipal Utility District No. 7

AERIAL PHOTOGRAPH



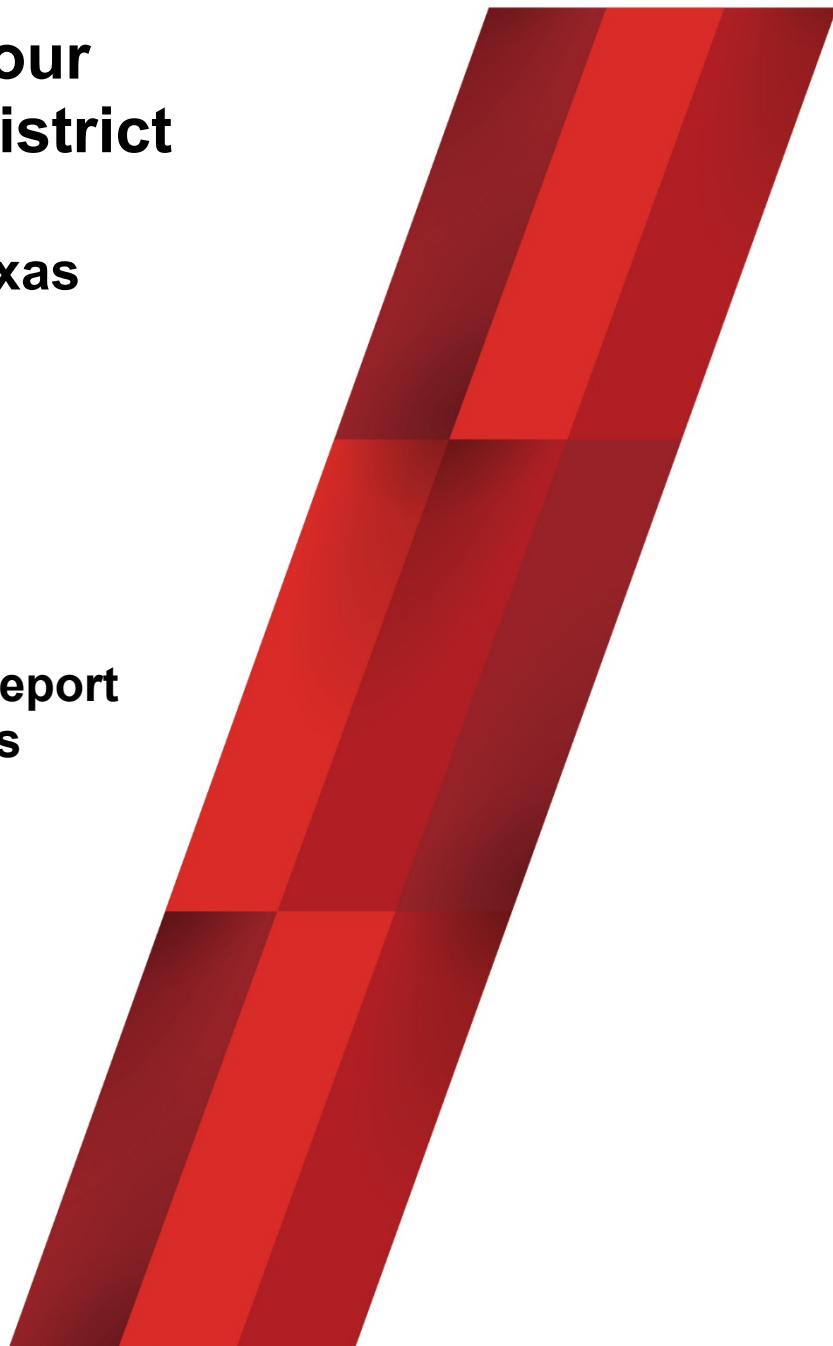
APPENDIX A

Independent Auditor's Report and Financial Statements for the Year Ended August 31, 2022

**South Shore Harbour
Municipal Utility District
No. 7
Galveston County, Texas**

**Independent Auditor's Report
and Financial Statements**

August 31, 2022



South Shore Harbour Municipal Utility District No. 7

August 31, 2022

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Independent Auditor's Report

Board of Directors
South Shore Harbour Municipal Utility District No. 7
Galveston County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of South Shore Harbour Municipal Utility District No. 7 (the District), as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District'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 respective financial position of the governmental activities and each major fund of the District, as of August 31, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 District 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Other Information

Management is responsible for the other information included in the basic financial statements. The other information comprises schedules required by the Texas Commission on Environmental Quality as listed in the table of contents. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS, LLP

Houston, Texas
February 24, 2023

South Shore Harbour Municipal Utility District No. 7

Management's Discussion and Analysis

August 31, 2022

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities, which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

South Shore Harbour Municipal Utility District No. 7

Management's Discussion and Analysis

August 31, 2022

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

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

South Shore Harbour Municipal Utility District No. 7

Management's Discussion and Analysis

August 31, 2022

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 4,690,730	\$ 3,793,672
Deferred outflows of resources	<u>705,740</u>	<u>756,865</u>
Total assets and deferred outflows of resources	<u><u>\$ 5,396,470</u></u>	<u><u>\$ 4,550,537</u></u>
Long-term liabilities	\$ 16,281,228	\$ 14,426,496
Other liabilities	<u>230,607</u>	<u>26,613</u>
Total liabilities	<u>16,511,835</u>	<u>14,453,109</u>
Net position:		
Net investment in capital assets	(14,785,408)	(13,669,631)
Restricted	3,128,350	3,281,613
Unrestricted	<u>541,693</u>	<u>485,446</u>
Total net position	<u><u>\$ (11,115,365)</u></u>	<u><u>\$ (9,902,572)</u></u>

The total net position of the District decreased by \$1,212,793, or approximately 12 percent. The decrease in net position is primarily related to conveyance of capital assets to another governmental entity. At August 31, 2022, net investment in capital assets was \$(14,785,408). This amount was negative because the District has incurred debt to acquire capital assets, which have been conveyed to the City of League City (the City) pursuant to a utility agreement between the District and the City. Accordingly, these capital assets are not recorded in the financial statements of the District.

Summary of Changes in Net Position

	<u>2022</u>	<u>2021</u>
Revenues:		
Property taxes	\$ 1,708,730	\$ 1,553,950
Other revenues	<u>49,522</u>	<u>29,713</u>
Total revenues	<u>1,758,252</u>	<u>1,583,663</u>

South Shore Harbour Municipal Utility District No. 7

Management's Discussion and Analysis

August 31, 2022

Summary of Changes in Net Position (Continued)

	<u>2022</u>	<u>2021</u>
Expenses:		
Services	\$ 197,564	\$ 196,954
Conveyance of capital assets	1,946,309	74,504
Debt service	<u>827,172</u>	<u>579,315</u>
Total expenses	<u>2,971,045</u>	<u>850,773</u>
Change in net position	(1,212,793)	732,890
Net position, beginning of year	<u>(9,902,572)</u>	<u>(10,635,462)</u>
Net position, end of year	<u><u>\$ (11,115,365)</u></u>	<u><u>\$ (9,902,572)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended August 31, 2022, were \$4,451,157, an increase of \$688,538 from the prior year.

The general fund's fund balance increased by \$55,935 because property tax revenues and an interfund transfer from the capital projects fund were greater than service operations and capital outlay expenditures.

The debt service fund's fund balance decreased by \$170,525 because bond principal and interest requirements were greater than property tax revenues generated.

The capital projects fund's fund balance increased by \$803,128, due to proceeds from the sale of the Series 2021 bonds exceeded capital outlay expenditures and bond issuance costs.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major difference between budget and actual was due to professional fees expenditures being greater than anticipated. In addition, capital outlay expenditures and an interfund transfer were not budgeted for. The fund balance as of August 31, 2022, was expected to be \$486,217 and the actual end-of-year fund balance was \$540,903.

South Shore Harbour Municipal Utility District No. 7

Management's Discussion and Analysis

August 31, 2022

Capital Assets and Related Debt

Capital Assets

The District has conveyed title of its capital assets to the City. As such, the District reports no capital assets.

Debt

The changes in the debt position of the District during the fiscal year ended August 31, 2022, are summarized as follows:

Long-term debt payable, beginning of year	\$ 14,426,496
Increases in long-term debt	3,043,102
Decreases in long-term debt	<u>1,188,370</u>
Long-term debt payable, end of year	<u>\$ 16,281,228</u>

At August 31, 2022, the District had \$10,475,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "BBB+" from Standard & Poor's. The Series 2014, 2015, 2016 refunding and 2021 bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

Other Relevant Factors

Relationship to the City of League City

The District approved a contract with the City effective March 7, 2000, for a period of 40 years. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer and drainage facilities to serve the District.

The District shall be owner of the system until the system is completed, approved by the City and conveyed to it, at which time ownership will vest in the City. Pursuant to the contract, the District shall have a security interest therein until all bonds issued by the District are retired, the system has been completed and approved by the City, and the City has commenced operations and maintenance of the system via de facto conveyance.

South Shore Harbour Municipal Utility District No. 7
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 21,038	\$ 42,231	\$ 461	\$ 63,730	\$ -	\$ 63,730
Certificates of deposit	180,000	1,465,000	-	1,645,000	-	1,645,000
Short-term investments	361,509	1,616,772	991,627	2,969,908	-	2,969,908
Property taxes receivable	790	8,176	-	8,966	-	8,966
Accrued interest	1,099	2,027	-	3,126	-	3,126
Interfund receivable	18,832	-	-	18,832	(18,832)	-
	<u>583,268</u>	<u>3,134,206</u>	<u>992,088</u>	<u>4,709,562</u>	<u>(18,832)</u>	<u>4,690,730</u>
Total assets						
Deferred Outflows of Resources						
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>705,740</u>	<u>705,740</u>
Total assets and deferred outflows of resources	<u>\$ 583,268</u>	<u>\$ 3,134,206</u>	<u>\$ 992,088</u>	<u>\$ 4,709,562</u>	<u>\$ 686,908</u>	<u>\$ 5,396,470</u>

South Shore Harbour Municipal Utility District No. 7
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
August 31, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 41,575	\$ 72	\$ -	\$ 41,647	\$ -	\$ 41,647
Retainage payable	-	-	188,960	188,960	-	188,960
Interfund payable	-	18,832	-	18,832	(18,832)	-
Long-term liabilities:						
Due within one year	-	-	-	-	1,190,000	1,190,000
Due after one year	-	-	-	-	15,091,228	15,091,228
Total liabilities	41,575	18,904	188,960	249,439	16,262,396	16,511,835
Deferred Inflows of Resources						
Deferred property tax revenues	790	8,176	0	8,966	(8,966)	0
Fund Balances/Net Position						
Fund balances:						
Restricted:						
Debt service on unlimited tax bonds	-	3,107,126	-	3,107,126	(3,107,126)	-
Water, sewer and drainage	-	-	803,128	803,128	(803,128)	-
Unassigned	540,903	-	-	540,903	(540,903)	-
Total fund balances	540,903	3,107,126	803,128	4,451,157	(4,451,157)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 583,268	\$ 3,134,206	\$ 992,088	\$ 4,709,562		
Net position:						
Net investment in capital assets					(14,785,408)	(14,785,408)
Restricted for debt service					3,115,302	3,115,302
Restricted for capital projects					13,048	13,048
Unrestricted					541,693	541,693
Total net position					\$ (11,115,365)	\$ (11,115,365)

South Shore Harbour Municipal Utility District No. 7
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended August 31, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 142,624	\$ 1,561,580	\$ -	\$ 1,704,204	\$ 4,526	\$ 1,708,730
Penalty and interest	-	11,009	-	11,009	-	11,009
Investment income	3,707	21,254	13,472	38,433	-	38,433
Other income	30	25	25	80	-	80
Total revenues	146,361	1,593,868	13,497	1,753,726	4,526	1,758,252
Expenditures/Expenses						
Service operations:						
Professional fees	101,235	1,942	-	103,177	-	103,177
Contracted services	23,691	32,157	-	55,848	-	55,848
Other expenditures	30,408	7,682	449	38,539	-	38,539
Capital outlay	30,777	-	1,915,532	1,946,309	(1,946,309)	-
Conveyance of capital assets	-	-	-	-	1,946,309	1,946,309
Debt service:						
Principal retirement	-	1,150,000	-	1,150,000	(1,150,000)	-
Interest and fees	-	572,612	-	572,612	12,755	585,367
Debt issuance costs	-	-	241,805	241,805	-	241,805
Total expenditures/expenses	186,111	1,764,393	2,157,786	4,108,290	(1,137,245)	2,971,045
Deficiency of Revenues Over Expenditures	(39,750)	(170,525)	(2,144,289)	(2,354,564)	1,141,771	
Other Financing Sources (Uses)						
General obligation bonds issued	-	-	3,000,000	3,000,000	(3,000,000)	
Interfund transfers in (out)	95,685	-	(95,685)	-	-	
Premium on debt issued	-	-	43,102	43,102	(43,102)	
Total other financing sources	95,685	-	2,947,417	3,043,102	(3,043,102)	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	55,935	(170,525)	803,128	688,538	(688,538)	
Change in Net Position					(1,212,793)	(1,212,793)
Fund Balances/Net Position						
Beginning of year	484,968	3,277,651	-	3,762,619	-	(9,902,572)
End of year	\$ 540,903	\$ 3,107,126	\$ 803,128	\$ 4,451,157	\$ 0	\$ (11,115,365)

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Note 1: Nature of Operations and Summary of Significant Accounting Policies

South Shore Harbour Municipal Utility District No. 7 (the District) was created by an order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective July 24, 2001, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance and construct waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. All services are provided by the City of League City (the City).

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities, which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District, which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

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

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended August 31, 2022, include collections during the current period or within 60 days of year-end related to the 2021 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended August 31, 2022, the 2021 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

The District has conveyed its capital assets to the City.

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	\$ 8,966
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	705,740
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(16,281,228)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (15,566,522)</u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ 688,538
Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.	(1,850,000)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(43,102)

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	\$ 4,526
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(12,755)</u>
Change in net position of governmental activities.	<u><u>\$ (1,212,793)</u></u>

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain 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.

At August 31, 2022, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, 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, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their 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, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in Texas CLASS are reported at net asset value.

At August 31, 2022, the District had the following investments and maturities:

Type	Maturities In Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Texas CLASS	\$ 2,969,908	\$ 2,969,908	\$ 0	\$ 0	\$ 0

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2022, the District's investments in Texas Class were rated "AAA" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet at August 31, 2022, as follows:

Carrying value:	
Deposits	\$ 1,708,730
Investments	<u>2,969,908</u>
Total	<u>\$ 4,678,638</u>

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Included in the following statement of net position captions:

Cash	\$ 63,730
Certificates of deposits	1,645,000
Short-term investments	<u>2,969,908</u>
 Total	 <u><u>\$ 4,678,638</u></u>

Investment Income

Investment income of \$38,433 for the year ended August 31, 2022, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of August 31, 2022:

- Pooled investments of \$2,969,908 are valued at fair value per share of the pool's underlying portfolio.

Note 3: Capital Assets

The District has conveyed its capital assets to the City.

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended August 31, 2022, are presented below:

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 13,925,000	\$ 3,000,000	\$ 1,150,000	\$ 15,775,000	\$ 1,190,000
Add premiums on bonds	<u>501,496</u>	<u>43,102</u>	<u>38,370</u>	<u>506,228</u>	<u>-</u>
Total governmental activities long-term liabilities	<u><u>\$ 14,426,496</u></u>	<u><u>\$ 3,043,102</u></u>	<u><u>\$ 1,188,370</u></u>	<u><u>\$ 16,281,228</u></u>	<u><u>\$ 1,190,000</u></u>

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

General Obligation Bonds

	Refunding Series 2012	Refunding Series 2014
Amounts outstanding, August 31, 2022	\$3,065,000	\$2,520,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2023/2033	September 1, 2023/2033
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2022	September 1, 2023
	Refunding Series 2015	Refunding Series 2016
Amounts outstanding, August 31, 2022	\$5,220,000	\$2,360,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	September 1, 2023/2033	September 1, 2023/2033
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2025	September 1, 2024
	Series 2021	
Amount outstanding, August 31, 2022	\$2,610,000	
Interest rates	1.00% to 2.00%	
Maturity dates, serially beginning/ending	September 1, 2023/2033	
Interest payment dates	March 1/ September 1	
Callable date*	September 1, 2026	

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

Annual Debt Service Requirements

The District has been paying the amount due September 1 within the fiscal year preceding the due date, and the following schedule has been prepared according to this practice. The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at August 31, 2022:

Year	Principal	Interest	Total
2023	\$ 1,190,000	\$ 542,156	\$ 1,732,156
2024	1,230,000	506,344	1,736,344
2025	1,270,000	468,755	1,738,755
2026	1,320,000	427,594	1,747,594
2027	1,365,000	382,346	1,747,346
2028-2032	7,675,000	1,174,896	8,849,896
2033	<u>1,725,000</u>	<u>63,900</u>	<u>1,788,900</u>
Total	<u>\$ 15,775,000</u>	<u>\$ 3,565,991</u>	<u>\$ 19,340,991</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted	\$ 36,000,000
Bonds sold	25,525,000
Refunding bonds voted	26,550,000
Refunding bonds authorization used	835,000

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended August 31, 2022, the District levied an ad valorem debt service tax at the rate of \$0.3504 per \$100 of assessed valuation, which resulted in a tax levy of \$1,567,570 on the taxable valuation of \$447,365,904 for the 2021 tax year. The interest and principal requirements paid from the tax revenues and available resources were \$1,722,612.

South Shore Harbour Municipal Utility District No. 7

Notes to Financial Statements

August 31, 2022

- B. The Bond Orders state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured, such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas, operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefore, the District shall not be required to carry such insurance. At August 31, 2022, the District had general liability insurance with an aggregate limit of \$3,000,000.
- C. During the current year, the District transferred \$95,685 from the capital projects fund to the general fund. The transfer was in accordance with the rules of the Commission.

Note 6: Maintenance Taxes

At an election held November 6, 2001, voters authorized a maintenance tax not to exceed \$0.20 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended August 31, 2022, the District levied an ad valorem maintenance tax at the rate of \$0.0320 per \$100 of assessed valuation, which resulted in a tax levy of \$143,157 on the taxable valuation of \$447,365,904 for the 2021 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 8: Contract With the City of League City

The District approved a contract with the City effective March 7, 2000, which continues for a period of 40 years. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer and drainage facilities to serve the District.

The District shall be the owner of the system until the system is completely approved by the City, and conveyed to it, at which time ownership will vest in the City. Pursuant to the contract, the District shall have a security interest therein until all bonds issued by the District are retired. The system has been completed and approved by the City, and the City has commenced operations and maintenance of the system via de facto conveyance.

Required Supplementary Information

South Shore Harbour Municipal Utility District No. 7
Budgetary Comparison Schedule – General Fund
Year Ended August 31, 2022

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 145,224	\$ 142,624	\$ (2,600)
Investment income	3,000	3,707	707
Other income	-	30	30
	<hr/>	<hr/>	<hr/>
Total revenues	148,224	146,361	(1,863)
	<hr/>	<hr/>	<hr/>
Expenditures			
Service operations:			
Professional fees	94,800	101,235	(6,435)
Contracted services	22,000	23,691	(1,691)
Other expenditures	30,175	30,408	(233)
Capital outlay	-	30,777	(30,777)
	<hr/>	<hr/>	<hr/>
Total expenditures	146,975	186,111	(39,136)
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	1,249	(39,750)	(40,999)
	<hr/>	<hr/>	<hr/>
Other Financing Sources			
Interfund transfers in	-	95,685	95,685
	<hr/>	<hr/>	<hr/>
Excess of Revenues and Transfers In Over Expenditures and Transfers Out	1,249	55,935	54,686
	<hr/>	<hr/>	<hr/>
Fund Balance, Beginning of Year	484,968	484,968	-
	<hr/>	<hr/>	<hr/>
Fund Balance, End of Year	\$ 486,217	\$ 540,903	\$ 54,686
	<hr/>	<hr/>	<hr/>

South Shore Harbour Municipal Utility District No. 7

Notes to Required Supplementary Information

August 31, 2022

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2022.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

South Shore Harbour Municipal Utility District No. 7
Other Schedules Included Within This Report
August 31, 2022

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-23
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

South Shore Harbour Municipal Utility District No. 7
Schedule of Services and Rates
Year Ended August 31, 2022

1. Services provided by the District:

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

South Shore Harbour Municipal Utility District No. 7

Schedule of General Fund Expenditures

Year Ended August 31, 2022

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	16,300	
Legal		63,825	
Engineering		21,110	
Financial advisor		-	101,235
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			-
Regional Water Fee			-
Contracted Services			
Bookkeeping		23,691	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	23,691
		<hr/>	
Utilities			-
Repairs and Maintenance			-
Administrative Expenditures			
Directors' fees		9,000	
Office supplies		803	
Insurance		4,791	
Other administrative expenditures		15,814	30,408
		<hr/>	
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		30,777	30,777
		<hr/>	
Tap Connection Expenditures			-
Solid Waste Disposal			-
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
			<hr/>
Total expenditures		\$	<u><u>186,111</u></u>

South Shore Harbour Municipal Utility District No. 7
Schedule of Temporary Investments
August 31, 2022

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 12476	0.50%	02/02/23	\$ 60,000	\$ 173
No. 36001692	0.25%	10/27/22	60,000	126
No. 6000052693	0.30%	03/10/23	60,000	800
Texas CLASS	2.38%	Demand	<u>361,509</u>	<u>-</u>
			<u>541,509</u>	<u>1,099</u>
Debt Service Fund				
Certificates of Deposit				
No. 91300011974146	0.38%	02/04/23	245,000	533
No. 440005421	0.10%	02/14/23	245,000	133
No. 13745	0.25%	02/06/23	245,000	346
No. 20000000046	0.15%	02/19/23	245,000	194
No. 6000048345	0.40%	01/19/23	240,000	590
No. 655011594	0.25%	02/09/23	245,000	231
Texas CLASS	2.38%	Demand	<u>1,616,772</u>	<u>-</u>
			<u>3,081,772</u>	<u>2,027</u>
Capital Projects Fund				
Texas CLASS	2.38%	Demand	<u>991,627</u>	<u>-</u>
Totals			<u>\$ 4,614,908</u>	<u>\$ 3,126</u>

South Shore Harbour Municipal Utility District No. 7
Analysis of Taxes Levied and Receivable
Year Ended August 31, 2022

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 478	\$ 3,962
Additions and corrections to prior years' taxes	<u>(221)</u>	<u>(1,776)</u>
Adjusted receivable, beginning of year	<u>257</u>	<u>2,186</u>
 2021 Original Tax Levy	 143,053	 1,566,434
Additions and corrections	<u>104</u>	<u>1,136</u>
Adjusted tax levy	<u>143,157</u>	<u>1,567,570</u>
Total to be accounted for	143,414	1,569,756
Tax collections: Current year	(142,573)	(1,561,173)
Prior years	<u>(51)</u>	<u>(407)</u>
Receivable, end of year	<u><u>\$ 790</u></u>	<u><u>\$ 8,176</u></u>
 Receivable, by Years		
2021	\$ 584	\$ 6,397
2020	21	166
2019	86	729
2018	48	421
2017	50	437
2016	-	5
2015	-	6
2013	<u>1</u>	<u>15</u>
Receivable, end of year	<u><u>\$ 790</u></u>	<u><u>\$ 8,176</u></u>

South Shore Harbour Municipal Utility District No. 7
Analysis of Taxes Levied and Receivable (Continued)
Year Ended August 31, 2022

	2021	2020	2019	2018
Property Valuations				
Land	\$ 59,942,850	\$ 59,942,850	\$ 59,942,850	\$ 59,941,510
Improvements	408,262,715	361,958,064	326,015,621	309,097,623
Personal property	6,957,234	7,721,130	7,916,080	7,159,826
Exemptions	<u>(27,796,895)</u>	<u>(23,823,378)</u>	<u>(18,228,074)</u>	<u>(15,655,641)</u>
Total property valuations	<u>\$ 447,365,904</u>	<u>\$ 405,798,666</u>	<u>\$ 375,646,477</u>	<u>\$ 360,543,318</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.3504	\$ 0.3400	\$ 0.3400	\$ 0.3500
Maintenance tax rates*	<u>0.0320</u>	<u>0.0430</u>	<u>0.0400</u>	<u>0.0400</u>
Total tax rates per \$100 valuation	<u>\$ 0.3824</u>	<u>\$ 0.3830</u>	<u>\$ 0.3800</u>	<u>\$ 0.3900</u>
Tax Levy	<u>\$ 1,710,727</u>	<u>\$ 1,554,209</u>	<u>\$ 1,427,457</u>	<u>\$ 1,406,119</u>
Percent of Taxes Collected to Taxes Levied**	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$0.20 on November 6, 2001

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

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years
August 31, 2022

Due During Fiscal Years Ending August 31	Refunding Series 2012		
	Principal Due September 1	Interest Due March 1, September 1	Total
2023	\$ 230,000	\$ 113,005	\$ 343,005
2024	235,000	105,645	340,645
2025	240,000	97,655	337,655
2026	255,000	89,495	344,495
2027	265,000	80,570	345,570
2028	275,000	71,030	346,030
2029	290,000	61,130	351,130
2030	300,000	50,400	350,400
2031	310,000	39,000	349,000
2032	325,000	26,600	351,600
2033	340,000	13,600	353,600
Totals	<u>\$ 3,065,000</u>	<u>\$ 748,130</u>	<u>\$ 3,813,130</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2022

Due During Fiscal Years Ending August 31	Refunding Series 2014		
	Principal Due September 1	Interest Due March 1, September 1	Total
2023	\$ 185,000	\$ 91,163	\$ 276,163
2024	190,000	85,612	275,612
2025	200,000	79,912	279,912
2026	210,000	73,412	283,412
2027	215,000	66,588	281,588
2028	230,000	59,062	289,062
2029	235,000	51,012	286,012
2030	245,000	42,200	287,200
2031	260,000	32,400	292,400
2032	270,000	22,000	292,000
2033	<u>280,000</u>	<u>11,200</u>	<u>291,200</u>
Totals	<u>\$ 2,520,000</u>	<u>\$ 614,561</u>	<u>\$ 3,134,561</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2022

Due During Fiscal Years Ending August 31	Refunding Series 2015		
	Principal Due September 1	Interest Due March 1, September 1	Total
2023	\$ 370,000	\$ 208,800	\$ 578,800
2024	390,000	194,000	584,000
2025	405,000	178,400	583,400
2026	430,000	162,200	592,200
2027	450,000	145,000	595,000
2028	470,000	127,000	597,000
2029	500,000	108,200	608,200
2030	515,000	88,200	603,200
2031	545,000	67,600	612,600
2032	565,000	45,800	610,800
2033	<u>580,000</u>	<u>23,200</u>	<u>603,200</u>
Totals	<u>\$ 5,220,000</u>	<u>\$ 1,348,400</u>	<u>\$ 6,568,400</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2022

Due During Fiscal Years Ending August 31	Refunding Series 2016		
	Principal Due September 1	Interest Due March 1, September 1	Total
2023	\$ 175,000	\$ 85,700	\$ 260,700
2024	170,000	82,200	252,200
2025	180,000	78,800	258,800
2026	190,000	73,400	263,400
2027	200,000	65,800	265,800
2028	210,000	57,800	267,800
2029	225,000	49,400	274,400
2030	235,000	40,400	275,400
2031	245,000	31,000	276,000
2032	260,000	21,200	281,200
2033	<u>270,000</u>	<u>10,800</u>	<u>280,800</u>
Totals	<u>\$ 2,360,000</u>	<u>\$ 596,500</u>	<u>\$ 2,956,500</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years (Continued)
August 31, 2022

Due During Fiscal Years Ending August 31	Series 2021		
	Principal Due September 1	Interest Due March 1, September 1	Total
2023	\$ 230,000	\$ 43,488	\$ 273,488
2024	245,000	38,887	283,887
2025	245,000	33,988	278,988
2026	235,000	29,087	264,087
2027	235,000	24,388	259,388
2028	235,000	22,037	257,037
2029	225,000	19,688	244,688
2030	235,000	17,437	252,437
2031	235,000	14,500	249,500
2032	235,000	9,800	244,800
2033	<u>255,000</u>	<u>5,100</u>	<u>260,100</u>
Totals	<u>\$ 2,610,000</u>	<u>\$ 258,400</u>	<u>\$ 2,868,400</u>

The District pays the amount due September 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

South Shore Harbour Municipal Utility District No. 7
Schedule of Long-term Debt Service Requirements by Years
August 31, 2022

Due During Fiscal Years Ending August 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2023	\$ 1,190,000	\$ 542,156	\$ 1,732,156
2024	1,230,000	506,344	1,736,344
2025	1,270,000	468,755	1,738,755
2026	1,320,000	427,594	1,747,594
2027	1,365,000	382,346	1,747,346
2028	1,420,000	336,929	1,756,929
2029	1,475,000	289,430	1,764,430
2030	1,530,000	238,637	1,768,637
2031	1,595,000	184,500	1,779,500
2032	1,655,000	125,400	1,780,400
2033	1,725,000	63,900	1,788,900
Totals	<u>\$ 15,775,000</u>	<u>\$ 3,565,991</u>	<u>\$ 19,340,991</u>

South Shore Harbour Municipal Utility District No. 7

Changes in Long-term Bonded Debt

Year Ended August 31, 2022

	Bond		
	Refunding Series 2012	Refunding Series 2014	Refunding Series 2015
Interest rates	2.00% to 4.00%	2.00% to 4.00%	2.00% to 4.00%
Dates interest payable	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity dates	September 1, 2023/2033	September 1, 2023/2033	September 1, 2023/2033
Bonds outstanding, beginning of current year	\$ 3,280,000	\$ 2,700,000	\$ 5,425,000
Bonds sold during current year	-	-	-
Retirements, principal	<u>215,000</u>	<u>180,000</u>	<u>205,000</u>
Bonds outstanding, end of current year	<u>\$ 3,065,000</u>	<u>\$ 2,520,000</u>	<u>\$ 5,220,000</u>
Interest paid during current year	<u>\$ 119,455</u>	<u>\$ 96,562</u>	<u>\$ 214,950</u>

Paying agent's name and address:

Series 2012 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2014 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2015 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2016 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2021 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 36,000,000	0	\$ 26,550,000
Amount issued	\$ 25,525,000	0	\$ 835,000
Remaining to be issued	<u>\$ 10,475,000</u>	<u>0</u>	<u>\$ 25,715,000</u>

Debt service fund cash and temporary investment balances as of August 31, 2022: \$ 3,124,003

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,758,272

Issues

Refunding Series 2016	Series 2021	Totals
2.00% to 4.00%	1.00% to 2.00%	
March 1/ September 1	March 1/ September 1	
September 1, 2023/2033	September 1, 2023/2033	
\$ 2,520,000	\$ -	\$ 13,925,000
-	3,000,000	3,000,000
<u>160,000</u>	<u>390,000</u>	<u>1,150,000</u>
<u>\$ 2,360,000</u>	<u>\$ 2,610,000</u>	<u>\$ 15,775,000</u>
<u>\$ 90,500</u>	<u>\$ 51,145</u>	<u>\$ 572,612</u>

South Shore Harbour Municipal Utility District No. 7

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended August 31,

	Amounts				
	2022	2021	2020	2019	2018
General Fund					
Revenues					
Property taxes	\$ 142,624	\$ 174,661	\$ 150,055	\$ 143,949	\$ 145,082
Investment income	3,707	3,183	10,738	13,180	7,245
Other income	30	15	12	10	17
Total revenues	146,361	177,859	160,805	157,139	152,344
Expenditures					
Service operations:					
Professional fees	101,235	87,297	125,825	75,842	83,931
Contracted services	23,691	18,567	17,088	16,700	16,938
Repairs and maintenance	-	18,495	-	-	-
Other expenditures	30,408	28,197	27,428	24,748	24,512
Capital outlay	30,777	74,504	-	-	12,000
Debt service, debt issuance costs	-	21,181	-	-	-
Total expenditures	186,111	248,241	170,341	117,290	137,381
Excess (Deficiency) of Revenues Over Expenditures	(39,750)	(70,382)	(9,536)	39,849	14,963
Other Financing Sources					
Interfund transfers in	95,685	-	-	-	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	55,935	(70,382)	(9,536)	39,849	14,963
Fund Balance, Beginning of Year	484,968	555,350	564,886	525,037	510,074
Fund Balance, End of Year	\$ 540,903	\$ 484,968	\$ 555,350	\$ 564,886	\$ 525,037
Total Active Retail Water Connections	N/A	N/A	N/A	N/A	N/A
Total Active Retail Wastewater Connections	N/A	N/A	N/A	N/A	N/A

Percent of Fund Total Revenues

2022	2021	2020	2019	2018
97.5 %	98.2 %	93.3 %	91.6 %	95.2 %
2.5	1.8	6.7	8.4	4.8
0.0	0.0	0.0	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
69.2	49.1	78.2	48.3	55.1
16.2	10.4	10.6	10.6	11.1
-	10.4	-	-	-
20.8	15.9	17.1	15.7	16.1
21.0	41.9	-	-	7.9
-	11.9	-	-	-
<u>127.2</u>	<u>139.6</u>	<u>105.9</u>	<u>74.6</u>	<u>90.2</u>
<u>(27.2) %</u>	<u>(39.6) %</u>	<u>(5.9) %</u>	<u>25.4 %</u>	<u>9.8 %</u>

South Shore Harbour Municipal Utility District No. 7
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended August 31,

	Amounts				
	2022	2021	2020	2019	2018
Debt Service Fund					
Revenues					
Property taxes	\$ 1,561,580	\$ 1,381,303	\$ 1,275,701	\$ 1,259,552	\$ 1,271,366
Penalty and interest	11,009	7,818	12,119	4,551	10,882
Investment income	21,254	18,603	66,812	86,692	60,831
Other income	25	94	204	34	57
Total revenues	<u>1,593,868</u>	<u>1,407,818</u>	<u>1,354,836</u>	<u>1,350,829</u>	<u>1,343,136</u>
Expenditures					
Current:					
Professional fees	1,942	1,372	2,162	613	2,340
Contracted services	32,157	32,362	24,143	26,577	29,282
Other expenditures	7,682	10,664	6,438	9,164	8,275
Debt service:					
Principal retirement	1,150,000	730,000	705,000	1,255,000	785,000
Interest and fees	<u>572,612</u>	<u>542,720</u>	<u>562,645</u>	<u>581,510</u>	<u>637,598</u>
Total expenditures	<u>1,764,393</u>	<u>1,317,118</u>	<u>1,300,388</u>	<u>1,872,864</u>	<u>1,462,495</u>
Excess (Deficiency) of Revenues Over Expenditures	(170,525)	90,700	54,448	(522,035)	(119,359)
Fund Balance, Beginning of Year	<u>3,277,651</u>	<u>3,186,951</u>	<u>3,132,503</u>	<u>3,654,538</u>	<u>3,773,897</u>
Fund Balance, End of Year	<u>\$ 3,107,126</u>	<u>\$ 3,277,651</u>	<u>\$ 3,186,951</u>	<u>\$ 3,132,503</u>	<u>\$ 3,654,538</u>

Percent of Fund Total Revenues

2022	2021	2020	2019	2018
98.0 %	98.1 %	94.2 %	93.3 %	94.7 %
0.7	0.6	0.9	0.3	0.8
1.3	1.3	4.9	6.4	4.5
0.0	0.0	0.0	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.1	0.1	0.2	0.0	0.2
2.0	2.3	1.8	1.9	2.2
0.5	0.8	0.5	0.7	0.6
72.2	51.8	52.0	92.9	58.5
<u>35.9</u>	<u>38.6</u>	<u>41.5</u>	<u>43.0</u>	<u>47.5</u>
<u>110.7</u>	<u>93.6</u>	<u>96.0</u>	<u>138.5</u>	<u>109.0</u>
<u>(10.7) %</u>	<u>6.4 %</u>	<u>4.0 %</u>	<u>(38.5) %</u>	<u>(9.0) %</u>

South Shore Harbour Municipal Utility District No. 7
Board Members, Key Personnel and Consultants
Year Ended August 31, 2022

Complete District mailing address:	South Shore Harbour Municipal Utility District No. 7 c/o Bacon, Wallace & Philbin, L.L.P. 6363 Woodway, Suite 800 Houston, Texas 77057-1762
District business telephone number:	713.739.1060
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	April 30, 2021
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Holly Larsen	Elected 05/20- 05/24	\$ 2,100	\$ 0	President
Steven Day	Elected 05/22- 05/26	2,400	0	Secretary
Kim Gerry	Appointed 02/21- 05/24	1,500	0	Deputy Secretary
Giao P. Doan	Elected 05/22- 05/26	1,050	0	Director
Robert Schuler	Elected 05/20- 08/22	1,950	771	Resigned

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

South Shore Harbour Municipal Utility District No. 7
Board Members, Key Personnel and Consultants (Continued)
Year Ended August 31, 2022

Consultants	Date Hired	Fees and Expense Reimbursements	Title
A&S Engineers, Inc.	06/14/22	\$ 23,354	Engineer
Assessments of the Southwest, Inc.	10/01/09	20,010	Tax Assessor/ Collector
Bacon, Wallace & Philbin, L.L.P.	02/09/21	64,828 96,750	General Counsel Bond Counsel
Dannenbaum Engineers, Inc.	07/25/01	52,311	Former Engineer
FORVIS, LLP	07/13/04	18,300	Auditor
Galveston Central Appraisal District	Legislative Action	13,812	Appraiser
Linebarger Goggan Blair & Sampson, LLP	03/01/21	1,942	Delinquent Tax Attorney
Municipal Accounts & Consulting, L.P.	08/13/13	29,383	Bookkeeper
RBC Capital Markets, LLC	07/08/03	62,200	Financial Advisor
Investment Officers			
Mark M. Burton and Ghia Lewis	08/13/13	N/A	Bookkeepers



2700 Post Oak Boulevard, Suite 1500 / Houston, TX 77056

P 713.499.4600 / F 713.499.4699

forvis.com

Board of Directors
South Shore Harbour Municipal Utility District No. 7
Galveston County, Texas

In planning and performing our audit of the financial statements of South Shore Harbour Municipal Utility District No. 7 (the District) as of and for the year ended August 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be material weaknesses.

Material Weaknesses

The District's management consists of an elected Board of Directors (Directors). Day-to-day operations are performed by private entities (Consultants) under contract with the District. The Directors supervise the performance of the Consultants; however, although Consultants can be part of the District's system of internal control, the Consultants are not members of management. Per auditing standards, management is responsible for design and implementation of the District's system of internal controls.

Per auditing standards, one of the primary controls within the system of internal controls is related to the preparation of the financial statements. Management of the District is responsible for either preparing the financial statements or having the knowledge to determine whether the financial statements have been properly prepared and are free from potential misstatement. The absence of this expertise within management, or a Consultant of the District hired to perform this service, is considered by auditing standards to be a material weakness in internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to correct and present the financial statements on the government-wide basis of accounting. Additionally, we noted adjustments to various accounts, such as accrued interest receivable and investment income, which were necessary in order for the fund financial statements to be in conformity with generally accepted accounting principles. The inability of management (or a Consultant of the District hired to perform this service) to detect these necessary adjustments is considered by auditing standards to be a material weakness in internal control over financial reporting.

The material weaknesses noted above, if not corrected, could result in a material misstatement or omission of a required disclosure in the financial statements.

Management's Response

The District's Directors are appointed or elected from the general population and do not necessarily have governmental accounting expertise. The Directors engage Consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. The Directors do not feel that the addition of an employee or a Consultant to perform the annual financial reporting process is necessary, nor would it be cost effective.

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Directors and the Texas Commission on Environmental Quality, and is not intended to be, and should not be, used by anyone other than these specified parties.

FORVIS,LLP

February 24, 2023

APPENDIX B
Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN