

**PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 11, 2019**

This **PRELIMINARY OFFICIAL STATEMENT** is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the **OFFICIAL STATEMENT** will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

**NEW ISSUE-Book-Entry Only**

**\$1,900,000**

**GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 54  
(A political subdivision of the State of Texas located within Galveston County)  
UNLIMITED TAX BONDS  
SERIES 2020**

The bonds described above (the "Bonds") are obligations solely of Galveston County Municipal Utility District No. 54 (the "District") and are not obligations of the State of Texas, Galveston County, the City of Texas City, the TIRZ (herein defined), any participant in the TIRZ, or any entity other than the District.

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 against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

**Dated Date: February 1, 2020**

**Due: December 1, as shown below**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from February 1, 2020, and is payable each June 1 and December 1, commencing June 1, 2020, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

**MATURITY SCHEDULE**

Principal <u>Amount(a)</u>	Maturity <u>(December 1)</u>	CUSIP <u>Number(c)</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield(d)</u>	Principal <u>Amount(a)</u>	Maturity <u>(December 1)</u>	CUSIP <u>Number(c)</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield(d)</u>
			%	%				%	%
\$ 55,000	2022				\$ 85,000	2034 (b)			
55,000	2023				85,000	2035 (b)			
60,000	2024				90,000	2036 (b)			
60,000	2025				95,000	2037 (b)			
60,000	2026 (b)				95,000	2038 (b)			
65,000	2027 (b)				100,000	2039 (b)			
65,000	2028 (b)				105,000	2040 (b)			
70,000	2029 (b)				110,000	2041 (b)			
70,000	2030 (b)				110,000	2042 (b)			
75,000	2031 (b)				115,000	2043 (b)			
75,000	2032 (b)				120,000	2044 (b)			
80,000	2033 (b)								

- (a) The Underwriter may designate one or more maturities of term bonds. See accompanying "OFFICIAL NOTICE OF SALE."
- (b) Bonds maturing on or after December 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on December 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about February 12, 2020.

**Bids Due: Wednesday, January 8, 2020 at 9:00 A.M., Central Standard Time in Houston, Texas  
Bid Award: Wednesday, January 8, 2020 at 9:00 A.M., Central Standard Time in Houston, Texas**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## TABLE OF CONTENTS

<b>MATURITY SCHEDULE .....</b>	<b>1</b>	<b>MANAGEMENT OF THE DISTRICT.....</b>	<b>28</b>
<b>USE OF INFORMATION IN OFFICIAL STATEMENT.....</b>	<b>3</b>	Board of Directors .....	28
<b>SALE AND DISTRIBUTION OF THE BONDS .....</b>	<b>4</b>	District Consultants.....	28
Award of the Bonds .....	4	<b>THE SYSTEM.....</b>	<b>29</b>
Prices and Marketability.....	4	Regulation.....	29
Securities Laws .....	4	Water Supply and Wastewater Treatment.....	29
<b>OFFICIAL STATEMENT SUMMARY.....</b>	<b>5</b>	Water Distribution, Wastewater Collection and Storm	
<b>SELECTED FINANCIAL INFORMATION (UNAUDITED) ...</b>	<b>9</b>	Drainage Facilities .....	29
<b>RISK FACTORS .....</b>	<b>10</b>	Ownership and Operations.....	29
Hurricane Harvey.....	10	100-Year Flood Plain.....	29
Specific Flood Type Risks .....	10	<b>FINANCIAL INFORMATION CONCERNING THE</b>	
General.....	11	<b>DISTRICT (UNAUDITED).....</b>	<b>30</b>
Economic Factors and Interest Rates .....	11	Investments of the District.....	31
Developers/Property Owners Obligation to the District.....	11	District TIRZ Fund .....	31
Credit Markets and Liquidity in the Financial Markets.....	11	General Operating Fund.....	32
Dependence on Principal Taxpayers .....	12	Debt Service Requirements.....	33
Dependence on Personal Property Tax Collections.....	12	Estimated Overlapping Debt.....	34
Dependence on Collection of TIRZ Contract		Overlapping Taxes.....	34
Revenue Payments .....	12	<b>TAX DATA .....</b>	<b>35</b>
Possible Impact on District Tax Rates.....	13	Debt Service Tax .....	35
Undeveloped Acreage .....	13	Maintenance Tax .....	35
Future Debt .....	14	Historical Tax Rate.....	35
Tax Collections Limitations and Foreclosure Remedies .....	14	Tax Exemptions.....	35
Registered Owners’ Remedies and Bankruptcy Limitations .....	14	Additional Penalties.....	35
Environmental Regulation.....	15	Historical Tax Collections .....	35
Marketability of the Bonds.....	17	Tax Roll Information .....	36
Changes in Tax Legislation.....	17	Principal Taxpayers .....	36
Continuing Compliance with Certain Covenants .....	17	<b>TAXING PROCEDURES .....</b>	<b>38</b>
<b>THE BONDS.....</b>	<b>18</b>	Authority to Levy Taxes.....	38
Description.....	18	Property Tax Code and County-Wide Appraisal District.....	38
Method of Payment of Principal and Interest.....	18	Property Subject to Taxation by the District.....	38
Source of Payment .....	18	Tax Abatement.....	39
Funds.....	18	Valuation of Property for Taxation.....	39
Redemption Provisions .....	19	District and Taxpayer Remedies .....	40
Authority for Issuance.....	19	Levy and Collection of Taxes.....	40
Registration and Transfer.....	19	Rollback of Operation and Maintenance Tax Rate .....	40
Lost, Stolen or Destroyed Bonds.....	20	District’s Rights in the Event of Tax Delinquencies.....	41
Replacement of Paying Agent/Registrar .....	20	The Effect of FIRREA on Tax Collections of the District.....	42
Issuance of Additional Debt.....	20	<b>LEGAL MATTERS .....</b>	<b>42</b>
Consolidation .....	21	Legal Proceedings.....	42
Dissolution by the City of Texas City .....	21	No Material Adverse Change.....	42
Remedies in Event of Default .....	21	No-Litigation Certificate.....	42
Legal Investment and Eligibility to Secure		<b>TAX MATTERS.....</b>	<b>43</b>
Public Funds in Texas .....	21	Tax Accounting Treatment of Original Issue Discount Bonds ..	43
Defeasance .....	22	Qualified Tax-Exempt Obligations .....	44
<b>BOOK-ENTRY-ONLY SYSTEM.....</b>	<b>22</b>	<b>PREPARATION OF OFFICIAL STATEMENT .....</b>	<b>44</b>
<b>CITY OF TEXAS CITY TAX INCREMENT</b>		Sources and Compilation of Information.....	44
<b>REINVESTMENT ZONE NO. 1.....</b>	<b>24</b>	Financial Advisor.....	44
<b>USE AND DISTRIBUTION OF BOND PROCEEDS .....</b>	<b>25</b>	Consultants .....	45
<b>THE DISTRICT .....</b>	<b>26</b>	Updating the Official Statement .....	45
General.....	26	Certification of Official Statement.....	45
Description and Location .....	26	<b>CONTINUING DISCLOSURE OF INFORMATION.....</b>	<b>46</b>
Land Use.....	26	Annual Reports .....	46
Status of Development .....	26	Event Notices.....	46
Future Development.....	27	Availability of Information from the MSRB.....	46
<b>THE DEVELOPERS.....</b>	<b>27</b>	Limitations and Amendments .....	47
Role of a Developer .....	27	Compliance With Prior Undertakings.....	47
Galveston Outlets, LLC .....	27	<b>MISCELLANEOUS.....</b>	<b>47</b>
Land Tejas Texas City, Ltd. ....	28	<b>AERIAL PHOTOGRAPH</b>	
OGC Lago Mar Apartments, LP .....	28	<b>PHOTOGRAPHS OF THE DISTRICT</b>	
		<b>APPENDIX A—Independent Auditor’s Report and Financial</b>	
		Statements of the District for the fiscal year	
		ended March 31, 2019	

## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an OFFICIAL STATEMENT with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

This OFFICIAL STATEMENT is not to be used in 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 Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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 affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement.”

## SALE AND DISTRIBUTION OF THE BONDS

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by \_\_\_\_\_ (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of \_\_\_\_\_% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of \_\_\_\_\_%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

### **Securities Laws**

No registration statement relating to the offer and sale of 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 Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

### HURRICANE HARVEY

#### *General...*

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

#### *Impact on the District...*

According to BGE, Inc. (the “Engineer”), water and wastewater service to the District was not interrupted during the Hurricane Harvey event. Further, according to Land Tejas Texas City, Ltd., a Texas limited partnership (“Land Tejas”) and Galveston Outlets, LLC, a Delaware limited liability company (“Galveston Outlets”), no commercial properties within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### THE DISTRICT

#### *Description...*

The District is a political subdivision of the State of Texas created by an Act of the 79th Legislature, Regular Session, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 280 acres of land. See “THE DISTRICT.”

#### *Location...*

The District is located approximately 30 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Texas City (the “City”). The District is bordered on the north and east by Interstate Highway 45 and on the south and west by undeveloped acreage within Galveston County Municipal Utility District Nos. 56 and 59. It is located approximately one and one-half miles northwest of the intersection of Interstate Highway 45 and the Emmett F. Lowry Expressway on the west side of Interstate Highway 45. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”

#### *The Developers...*

The developers of land within the District are Galveston Outlets and Land Tejas. Galveston Outlets is a joint venture between affiliates of Simon Property Group, Inc. (“Simon”) and Tanger Factory Outlet Centers, Inc. (“Tanger”) and was created for the sole purpose of developing the 350,000 square foot shopping center known as “Tanger Outlet Center” in Texas City, Texas (the “Mall”). Simon and Tanger are public companies whose stock is traded on the New York Stock Exchange under the symbols SPG and SKT, respectively, and affiliates of each are a fifty percent (50%) joint venturer in Galveston Outlets. An affiliate of Tanger is currently the sole managing member of Galveston Outlets. The general partners of Land Tejas are Brende Lago Mar, L.L.C., a Texas limited liability company and Grover Lago Mar, L.L.C., a Texas limited liability company. Land Tejas owned all of the land in the District at the time the District was created and continues to own approximately 91 acres in the District.

Catalon at Lago Mar Apartments, a 230 unit apartment community located on approximately 10 acres in the District is a joint venture between Oldham Goodwin Group and MGroup. OGC Lago Mar Apartments, LP, a Texas limited partnership (“OGC Lago Mar”) whose general partner is NAPA Lago Mar Apartments, LLC, a Texas limited liability company is a special purpose entity created by Oldham Goodwin Group and MGroup for the sole purpose of developing and owning the Catalon at Lago Mar Apartments. OGC Lago Mar does not own any additional developable property in the District.

Galveston Outlets, Land Tejas and OGC Lago Mar are collectively referred to herein as the “Developers.” See “RISK FACTORS—Dependence on Principal Taxpayers,” “THE DEVELOPERS,” and “TAX DATA—Principal Taxpayers.”

*Status of Development...*

Development in the District consists of the Mall (350,000 square foot facility on approximately 55 acres) that opened in October 2012. The Mall is a single-story open-air facility with over 86 outlet stores. Each store is individually operated and is responsible for paying the personal property taxes attributable to such store. See “RISK FACTORS—Dependence on Personal Property Tax Collections.” The Mall currently includes the following stores: Aeropostale, Asics, American Eagle Outfitters, Ann Taylor Factory Store, Auntie Anne’s / Cinnabon, Banana Republic Factory, Bath & Body Works, Booskies, Brooks Brothers, Calvin Klein, Carter’s / OshKosh, Chico’s, Claire’s, Clark’s, Coach, Columbia Sportswear, Converse, Crocs, Disney Store, Dressbarn, Elizabeth Arden, Express Factory Outlet, Famous Footwear, Finish Line, Fossil, Fragrance Outlet, Francesca’s, Gap Outlet, Girlie Girl Originals, Go! Calendars, Guess, Hagggar, Hurley, Jared Vault, Journeys, Justice, Kate Spade, Kay Jewelers, Kitchen Collection, Lane Bryant, Leggings Park, Levi’s Outlet, Lids, Loft Outlet, Michael Kors, Naturalizer, New Balance Factory Store, New York & Company Outlet, Nike Factory Store, Old Navy Outlet, PacSun, Papaya Clothing, Perfumania, Polo Ralph Lauren Factory Store, Puma, Reebok, Repair Plus, Robert Wayne Footwear, Rue21, Samsonite, Skechers, Sperry, Starbucks Coffee, Sunglass Hut, Texas Sheets, The Children’s Place, Tommy Bahama, Tommy Hilfiger, Torrid, Under Armour, U.S. Polo Association, Van Heusen Izod Golf, Vans, Vera Bradley, Waikiki, White House/Black Market, Wireless Plus and Zumiez plus a number of other retailers. Additionally, the Mall has three food establishments and according to Galveston Outlets, as of December 2, 2019, the Mall was 97% occupied.

Galveston Outlets has entered into leases with each tenant. While the terms of each lease differ, most of the leases are for five to ten year terms with renewal options.

In addition to the Mall, a 60,000 square foot Buc-ee’s store has been constructed on approximately 30 acres; and Catalon at Lago Mar Apartments, a 230 unit apartment community has been constructed on approximately 10 acres. A hotel and restaurant facility is currently under construction on approximately 5 acres in the District with an expected opening in the first quarter of 2020. Adventure Pointe, an amusement park, was under construction on approximately 32 acres in the District, but has been delayed due to the litigation relating to the development. The District is not a party to the lawsuit and does not make any representations with regard to the status of construction and completion of the amusement park.

The District also contains approximately 91 vacant acres of land which are partially served with water and sewer trunk facilities for future commercial/retail development and approximately 57 acres that are not developable (easements and utility sites). The District cannot represent that any construction of additional utilities or other taxable improvements will occur in the future. See “RISK FACTORS—Developer/Property Owners Obligation to the District” and “THE DISTRICT.”

*Water and Wastewater...*

Water supply and wastewater treatment for the District is provided by the City and all revenues from the collection of charges for water and sewer services are paid directly to the City. See “THE SYSTEM.”

*Payment Record...*

The District previously issued \$5,355,000 principal amount of unlimited tax road bonds (“Road Bonds”) and \$17,050,000 principal amount of unlimited tax and contract revenue bonds (“Unlimited Tax and Contract Revenue Bonds”), of which \$4,790,000 principal amount of unlimited tax road bonds (the “Outstanding Road Bonds”) and \$15,435,000 principal amount of unlimited tax and contract revenue bonds (the “Outstanding Unlimited Tax and Contract Revenue Bonds”) remains outstanding. Collectively \$20,225,000 principal amount remains outstanding (the “Outstanding Bonds”) as of the date hereof. The District has never defaulted on a principal or interest payment. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

*The TIRZ...*

In 2006, the City created Tax Increment Reinvestment Zone No. 1, City of Texas City, Texas (the “TIRZ”) encompassing approximately 3,458 acres, including all of the acreage in the District for purposes of funding certain infrastructure costs for development in the TIRZ. The City also created the Lago Mar Development Authority (the “Authority”) to administer the TIRZ on behalf of the City. The City, Galveston County (including Galveston County Road and Flood) and The College of the Mainland (collectively, the “Participants”) have all agreed to participate in the TIRZ and to deposit in the TIRZ account at the City an annual payment (the “Rebate”) equal to 100% of the tax revenue the Participants collect which is attributable to the increase in taxable value of real commercial property within commercial areas in the TIRZ, including the District, after January 1, 2006 (the “Captured Appraised Value”). Tax revenue collected on personal property is not included in the Rebate. The TIRZ terminates on December 31, 2038.

Pursuant to an interlocal agreement among the District, the City, the TIRZ and the Authority (the “Interlocal Agreement”), the TIRZ has agreed to annually transfer to the District the amount of Rebate attributable to the property in the District less an administrative fee (the TIRZ Contract Revenue Payments”) for the payment of debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds. See “THE BONDS—Source of Payment.” See “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1.”

## THE BONDS

*Description...*

The \$1,900,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on December 1 in each of the years 2022 through 2044, inclusive, and in the principal amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from February 1, 2020, and is payable June 1, 2020, and each December 1 and June 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. See “THE BONDS.”

*Book-Entry-Only System...*

The Depository Trust Company (defined as “DTC”), New York, New York, 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 certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

*Redemption...*

Bonds maturing on or after December 1, 2026, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on December 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

*Use of Proceeds...*

Proceeds of the Bonds will be used to pay for construction costs and fees shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize eighteen (18) months of interest on the Bonds; pay interest on funds advanced by Buc-ee’s and OGC Lago Mar on behalf of the District; and pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “THE DISTRICT—Status of Development” for more information on Buc-ee’s and “THE DEVELOPERS—OGC Lago Mar Apartments, LP.”

*Authority for Issuance...*

The Bonds are the third series of bonds issued out of an aggregate of \$77,225,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing a water, wastewater and drainage system and the first series of bonds secured solely by an unlimited tax pledge (no Rebate); bonds previously issued under such authorization are also secured by the Rebate. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, an election held in the District, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission on Environmental Quality (the “TCEQ”), Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance.”

<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the TIRZ, any of the Participants, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment” and “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1.”
<i>Municipal Bond Rating...</i>	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made.
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds will be designated “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

### **RISK FACTORS**

The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “RISK FACTORS.”



**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2019 Certified Taxable Assessed Valuation.....	\$142,714,060	(a)
Gross Direct Debt Unlimited Tax Bonds (including the Bonds and Outstanding Road Bonds) .....	\$ 6,690,000	(b)
Gross Direct Debt Outstanding Unlimited Tax and Contract Revenue Bonds.....	<u>15,435,000</u>	(b)
Total Gross Direct Debt .....	\$22,125,000	
Estimated Overlapping Debt .....	<u>14,535,061</u>	(c)
Total Gross Direct Debt and Estimated Overlapping Debt .....	\$36,660,061	
Ratio of Total Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation .....	15.50%	
Ratio of Total Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	25.69%	
Total Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds) .....	\$22,125,000	(b)
Less: Gross Direct Self-Supporting Debt (the Outstanding Unlimited Tax and Contract Revenue Bonds).....	<u>(15,435,000)</u>	(d)
<b>Net</b> Direct Debt Outstanding (the Unlimited Tax Bonds, including the Bonds) .....	\$ 6,690,000	
Estimated Overlapping Debt .....	<u>14,535,061</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$21,225,061	
Ratio of <b>Net</b> Direct Debt to:		
2019 Certified Taxable Assessed Valuation .....	4.69%	
Ratio of <b>Net</b> Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	14.87%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of December 11, 2019.....	\$ 394,251	(e)
Capitalized Interest (Eighteen Months).....	106,875	(f)
District TIRZ Debt Service Fund as of December 11, 2019 .....	<u>2,400,919</u>	(g)
Total Debt Service Funds Available .....	\$2,902,045	
Other Funds:		
Operating Funds Available as of December 11, 2019.....	\$744,350	(h)
TIRZ Funds Available as of December 11, 2019.....	\$375,121	(i)
2019 Debt Service Tax Rate.....	\$0.27	(j)
2019 Maintenance Tax Rate.....	<u>0.27</u>	
2019 Total Tax Rate.....	\$0.54	

- (a) As certified by the Galveston Central Appraisal District (the “Appraisal District”).
- (b) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.”
- (d) See “RISK FACTORS—Possible Impact on District Tax Rates,” “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1,” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Tax Adequacy for Debt Service.”
- (e) Funds in the Road Debt Service Fund are available to pay debt service on the Outstanding Road Bonds (as herein defined) issued for road facilities and are not available to pay debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds (as herein defined), issued for water, wastewater and drainage facilities. Funds in the District TIRZ Debt Service Fund are available to pay debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds, issued for water, sewer and drainage facilities and are not available to pay debt service on Outstanding Road Bonds or the Bonds.
- (f) The District will capitalize eighteen (18) months of interest from Bond proceeds assuming an estimated interest rate of 3.75%. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (g) Includes the December 1, 2019, debt service payment on the Outstanding Unlimited Tax and Contract Revenue Bonds in the amount of \$829,006. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—District TIRZ Debt Service Fund.”
- (h) Includes \$675,000 in surplus funds approved for use by the TCEQ for the purpose for which the Bonds are being issued. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (i) Represents surplus TIRZ Contract Revenue, which is available for debt service on the Outstanding Contract Revenue Bonds and/or capital projects. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—District TIRZ Fund.”
- (j) See “RISK FACTORS—Possible Impact on District Tax Rates,” “—Future Debt,” and “TAX DATA—Tax Adequacy for Debt Service.”

## PRELIMINARY OFFICIAL STATEMENT

### **GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 54** *(A political subdivision of the State of Texas located within Galveston County)*

**\$1,900,000**

### **UNLIMITED TAX BONDS SERIES 2020**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Galveston County Municipal Utility District No. 54 (the “District”) of its \$1,900,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, an election held within the District, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, certain other information about the District, City of Texas City Reinvestment Zone No. 1 (the “TIRZ”), the TIRZ Contract Revenue Payments (as defined herein), Galveston Outlets, LLC, a Delaware limited liability company (“Galveston Outlets”), Land Tejas Texas City, Ltd., a Texas limited partnership (“Land Tejas”), OGC Lago Mar Apartments, LP, a Texas limited partnership (“OGC Lago Mar”) and development activity in the District. Galveston Outlets, Land Tejas and OGC Lago Mar are collectively referred to herein as the “Developers.” All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

## RISK FACTORS

### **Hurricane Harvey**

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to BGE, Inc. (the “Engineer”), water and wastewater service to the District was not interrupted during the Hurricane Harvey event. Further, according to Land Tejas and Galveston Outlets, no commercial properties within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

*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.

*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 over land. 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 flooding 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 downstream.

## **General**

The Bonds are obligations solely of the District and are not obligations of the City of Texas City, Texas (the “City”), Galveston County, the State of Texas, the TIRZ, the Participants, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS—Source of Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies” herein.

## **Economic Factors and Interest Rates**

*General:* Both TIRZ Contract Revenue Payments (as defined herein) and District taxes are derived from taxation of taxable property in the District (in the case of TIRZ Contract Revenue Payments, only real property). The market value of such properties is related to general economic conditions in the City, the greater Houston metropolitan area, the State of Texas and the nation and those conditions can affect the demand for such properties. The success and sustainability of the Mall can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets” below), and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed.

*Competition:* The Mall is located in an area approximately 30 miles southeast of downtown Houston where substantial development is occurring, and competing super-regional outlet malls or other value retail shopping centers may be built with more convenient locations or lower rents. These malls or shopping centers could attract the tenants of the Mall or cause them to seek more favorable lease terms at or prior to renewal, and may accordingly adversely affect the business, revenues or values of the Mall. In addition, traditional retailers may increase their competition with value retailers for a limited pool of consumers by engaging in marketing and selling activities similar to those of value retailers, thus blurring the distinction between traditional retailers and value retailers.

*Risks Associated with a Mall:* National or regional economic conditions resulting in a decline in discretionary income could have a significant, adverse effect on the Mall. Shopping at retail shopping malls may decrease over time due to competition from other means of shopping, such as catalogues, television, or online shopping. Alternative uses for mall space may not be available.

## **Developers/Property Owners Obligation to the District**

There are no commitments from or obligations of the Developers or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds, continued development of taxable property within the District will increase or maintain its taxable value.

## **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 30 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the Houston metropolitan area and the nation could adversely affect development in the District and restrain the growth of the District’s property tax base.

### **Dependence on Principal Taxpayers**

Galveston Outlets is currently the principal taxpayer within the District representing \$77,287,290 or 54.16% of the 2019 Certified Taxable Assessed Valuation of \$142,714,060. See “THE DEVELOPERS” and “TAX DATA—Principal Taxpayers.” The ability of any principal taxpayer to make full and timely payments of taxes levied against their property by the District, the City, Galveston County (including Galveston County Road and Flood District) and College of the Mainland will directly affect the District’s ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to raise its tax rate or use other available funds for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its debt service funds or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the District’s ability to pay debt service on the Bonds on a current basis.

### **Dependence on Personal Property Tax Collections**

Because a large majority of the District’s tax base is comprised of the Mall (as defined herein), a significant portion of the 2019 Certified Taxable Assessed Valuation of \$142,714,060 is personal property. Approximately \$23,057,120 or 16.16% of the 2019 Certified Taxable Assessed Valuation of \$142,714,060 is personal property. See “TAX DATA—Tax Roll Information” and “TAXING PROCEDURES—Property Subject to Taxation by the District—Freeport Goods and Goods-in-Transit Exemptions.”

Tax revenue received by the Participants on personal property within the TIRZ is not included in the amounts paid by the Participants as part of the Rebate; however, the District taxes all taxable property, including personal property.

Unlike real property, there is no certainty that personal property will remain in the District from year-to-year. Business inventories are portable, and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year.

If personal property is subject to a lien for unpaid District taxes for any year, the District lien is lost if the property is sold in the ordinary course of business. A lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property then or thereafter owned by the taxpayer. However, the District may not be able to foreclose on personal property located outside the State of Texas, and locating and foreclosing on property held outside the District may be costly, inefficient and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20-year statute of limitations for real property. Personal property may not be seized, and a suit may not be filed to collect delinquent personal property taxes if the tax has been delinquent for more than four years. A tax and any penalty and interest on the tax that is delinquent longer than the limitation periods is presumed paid unless a suit to collect such personal property tax is pending. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. See “TAXING PROCEDURES.”

### **Dependence on Collection of TIRZ Contract Revenue Payments**

The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the principal and interest payments on the Outstanding Unlimited Tax and Contract Revenue Bonds over the life of the Outstanding Unlimited Tax and Contract Revenue Bonds; however, TIRZ Contract Revenue Payments are subject to a number of factors which may result in their decrease. First, TIRZ Contract Revenue Payments are only paid from the increase in taxable real value in the TIRZ since January 1, 2006. If taxable real values in the TIRZ decrease, TIRZ Contract Revenue Payments may decrease. Second, Participants only pay the Rebate from taxes collected by the Participants. Collection rates within the TIRZ may decrease. Third, Participants have no obligation to set a tax rate which will produce sufficient TIRZ Contract Revenue Payments to pay debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds. If one or more Participants reduces its tax rate, TIRZ Contract Revenue Payments may decrease. Finally, the obligation of a Participant to pay the Rebate may be difficult to enforce and the Rebate may be used toward payment of higher priority debt under certain circumstances. The District does not expect to levy ad valorem taxes in connection with the payment of debt service of the Outstanding Unlimited Tax and Contract Revenue Bonds. However, while the Outstanding Unlimited Tax and Contract Revenue Bonds or any part of the principal thereof or interest thereon remain outstanding or unpaid, the District covenants to levy and assess a continuing direct ad valorem tax without legal limitation to amount, upon all taxable property in the District sufficient to pay the principal and interest on the Outstanding Unlimited Tax and Contract Revenue Bonds, if necessary. See “Possible Impact of District Tax Rates” herein. The TIRZ Contract Revenue Payments are not available to pay debt service on the Bonds or the Outstanding Road Bonds. See “THE BONDS—Source of Payment” and “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1.”

## **Possible Impact on District Tax Rates**

The 2019 Certified Taxable Assessed Valuation is \$142,714,060. The District currently has \$4,790,000 principal amount of unlimited tax road bonds outstanding (the “Outstanding Road Bonds”). The Outstanding Road Bonds and the Bonds (collectively defined as the “Unlimited Tax Bonds”) are payable solely from proceeds of an unlimited ad valorem tax pledge. The District also has \$15,435,000 principal amount of unlimited tax and contract revenue bonds outstanding (the “Outstanding Unlimited Tax and Contract Revenue Bonds”). The Outstanding Unlimited Tax and Contract Revenue Bonds are payable from TIRZ Contract Revenue Payments (as defined herein) and are additionally secured by an unlimited ad valorem tax pledge. The Outstanding Road Bonds and the Outstanding Unlimited Tax and Contract Revenue Bonds are collectively referred to herein as the “Outstanding Bonds.” See “THE BONDS—Source of Payment” and “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1.”

*The Unlimited Tax Bonds, including the Bonds:* The maximum debt service requirement on the Outstanding Road Bonds and the Bonds is \$536,550 (2034) and the average annual debt service requirement on the Outstanding Road Bonds and the Bonds is \$439,782 (2020-2044, inclusive). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation of \$142,714,060, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.40 and \$0.33 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement on the Unlimited Tax Bonds, respectively.

*The Outstanding Unlimited Tax and Contract Revenue Bonds:* The maximum debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds is \$1,236,145 (2037) and the average annual debt service is \$1,186,335 (2020-2038, inclusive). The 2019 TIRZ Contract Revenue Payments (receipt in 2020) are projected to be in the amount of \$1,407,938. See “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1.” If TIRZ Revenue Payments were not available, tax rates of \$0.92 and \$0.88 per \$100 of taxable assessed valuation would be necessary at a ninety-five percent (95%) collection rate to pay the maximum annual debt service requirement and the average annual debt service requirement on the Outstanding Unlimited Tax and Contract Revenue Bonds, respectively, assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation of \$142,714,060, the issuance of no additional debt, and no other funds available for the payment of debt service.

The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the principal and interest on the Outstanding Unlimited Tax and Contract Revenue Bonds over the life of the Outstanding Unlimited Tax and Contract Revenue Bonds; therefore, the District does not expect to levy ad valorem taxes in connection with debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds. However, an unlimited tax pledge is available as security on the Outstanding Unlimited Tax and Contract Revenue Bonds. See “TAX DATA—TIRZ Contract Revenue.”

*The Outstanding Bonds and the Bonds:* The combined maximum debt service on the Bonds and the Outstanding Bonds is \$1,770,983 (2037) and the average annual debt services required on the Bonds and the Outstanding Bonds is \$1,341,396 (2020-2044). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation of \$142,714,060, the issuance of no additional debt and no other funds available, including TIRZ Contract Revenue Payments, tax rates of \$1.31 and \$0.99 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement on the Bonds and the Outstanding Bonds, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners to the District and the Participants. See “TAX DATA—Tax Adequacy for Debt Service.”

## **Undeveloped Acreage**

There are approximately 91 vacant acres of land partially served with water and sewer trunk facilities for future commercial/retail development. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT—Land Use.”

## **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After reimbursing Buc-ee's and OGC Lago Mar with Bond proceeds, the District will continue to owe Land Tejas approximately \$4,950,000 plus interest for existing water, wastewater and drainage facilities, roads and parks. The District expects to issue additional bonds in order to reimburse the Land Tejas for their outstanding obligations and to pay for the cost of additional water, wastewater and drainage constructed within the undeveloped portion of the District. The District's voters have authorized a total of \$77,225,000 principal amount of unlimited tax bonds for the purpose of providing water, wastewater and drainage facilities and for refunding outstanding debt, a total of \$24,275,000 principal amount of unlimited tax bonds for the purpose of financing and constructing roads and for refunding outstanding debt, and a total of \$16,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and for refunding outstanding debt. After the issuance of the Bonds, \$58,275,000 principal amount of unlimited tax bonds will remain authorized but unissued for water, wastewater and drainage facilities, \$18,920,000 principal amount of unlimited tax bonds will remain authorized but unissued for roads and all of the unlimited tax bonds authorized for recreational facilities and refunding purposes will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for water, wastewater and drainage facilities and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

## **Tax Collections Limitations and Foreclosure Remedies**

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 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, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed 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 in 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.

## **Registered Owners' Remedies and Bankruptcy Limitations**

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

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901- 946. The filing of such petition would automatically stay the enforcement of Registered Owner’s remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state 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. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in 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 a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other Bonds, and otherwise compromising and modifying the rights and remedies of the Registered Owners’ claims against a district.

A district may not be forced into bankruptcy involuntarily.

### **Environmental Regulation**

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

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

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

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

The HGB Area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. 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 has developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB Area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB Area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater 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 District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ 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. In order to maintain MS4 Permit compliance, the District is partnering with the city of Texas City (the "City"), to participate in the City's program to develop, implement, and maintain the required plan (the "MS4 Permit Plan") as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City's MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final on December 23, 2019.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

Due to the pending rulemaking activity, there remains uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

### **Marketability of the Bonds**

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

### **Changes in Tax Legislation**

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

### **Continuing Compliance with Certain Covenants**

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

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from February 1, 2020, with interest payable each June 1 and December 1, beginning June 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the May 15 or November 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

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

### **Source of Payment**

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

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

### **Funds**

In the Bond Resolution, the Water, Sewer & Drainage Debt Service Fund is created, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

The District also maintains a Road Debt Service Fund and TIRZ Debt Service Fund that are not pledged to the Bonds. Funds in the Water, Sewer and Drainage Debt Service Fund are not available to pay principal and interest on the Outstanding Road Bonds and funds in the Road Debt Service Fund are not available to pay principal and interest on the Bonds or the Outstanding Unlimited Tax and Contract Revenue Bonds.

Accrued interest on the Bonds and eighteen (18) months of capitalized interest shall be deposited into the Water, Sewer & Drainage Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Water, Sewer & Drainage Capital Projects Fund, to be used for the purpose of reimbursing Buc-ee's and OGC Lago Mar for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Water, Sewer & Drainage Capital Projects Fund after completion of construction of the entire water, sewer and drainage system will be used as described in the Bond Resolution or ultimately transferred to the Water, Sewer & Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a complete description of the use of Bond proceeds and the projects related thereto.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after December 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on December 1, 2025, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same 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.

## **Authority for Issuance**

At a bond election held within the District on May 12, 2012, voters of the District authorized the issuance of \$77,225,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater and storm drainage facilities and the Bonds are issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, an order of the TCEQ, Chapters 49 and 54 of the Texas Water Code and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

## **Registration and Transfer**

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

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

### **Lost, Stolen or Destroyed Bonds**

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

### **Issuance of Additional Debt**

At a bond election held within the District, voters of the District have authorized the issuance of \$77,225,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring water, wastewater and drainage facilities and a like principal amount for refunding of such bonds, \$16,000,000 principal amount of unlimited tax bonds for the purpose of acquiring and constructing parks and recreational facilities and a like principal amount for refunding of such bonds, \$24,275,000 principal amount of unlimited tax bonds for acquiring and constructing roads and a like principal amount for refunding of such bonds and could authorize additional amounts. After the issuance of the Bonds, the District will have \$58,275,000 principal amount of unlimited tax bonds for water, wastewater and drainage facilities authorized but unissued, along with \$18,920,000 principal amount of unlimited tax bonds authorized but unissued for road facilities, and \$16,000,000 principal amount of unlimited tax bonds authorized but unissued for recreational facilities and all bonds authorized for refunding purposes. The Bonds constitute the fourth issuance of bonds by the District. See "RISK FACTORS—Future Debt" and "CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1."

The District has reserved the right to issue additional bonds secured by the TIRZ Contract Revenue Payments on a parity with the Bonds.

Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District issues park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The City has consented to the issuance of park bonds by the District.

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

The Bond Resolution 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. The District expects to issue additional bonds in order to reimburse the Developers for the cost of water, wastewater and drainage facilities, recreational facilities and roadways constructed within the District. Issuance of additional bonds could dilute the investment security for the Bonds.

## **Consolidation**

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

## **Dissolution by the City of Texas City**

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City without the District's consent. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt services on the Bonds if such dissolution were to occur.

## **Remedies in Event of Default**

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

## **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 might 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.

## **Defeasance**

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

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

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

## **BOOK-ENTRY-ONLY SYSTEM**

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is 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 each maturity of the Bonds of each series, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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+” by 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](http://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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

## CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1

In 2006, the City created the TIRZ encompassing approximately 3,458 acres, including all of the acreage in the District, for purposes of funding certain infrastructure costs for development in the TIRZ. The City also created the Lago Mar Development Authority (the “Authority”) to administer the TIRZ on behalf of the City. The City, Galveston County (including Galveston County Road and Flood) and The College of the Mainland (collectively, the “Participants”) have all agreed to participate in the TIRZ and to deposit in the TIRZ account at the City an annual payment (the “Rebate”) equal to 100% of the tax revenue the Participants collect which is attributable to the increase in taxable real commercial property within the TIRZ including all of the property in the District since January 1, 2006 ( “Captured Appraised Value”). Tax revenue collected by the Participants on taxable personal property in the TIRZ is not included in the Rebate. The TIRZ terminates on December 31, 2038. All of the Outstanding Unlimited Tax and Contract Revenue Bonds mature prior to December 31, 2038. See “THE BONDS—Source of Payment.”

2019 Tax Year: Assessments of the Southwest (the “Tax Assessor Collector”) has provided the following information related to the January 1, 2006 Value and the 2019 Certified Real Property Value for the portion of the TIRZ which is within the District.

	2019 Certified Real Property Value	\$	119,656,940
	January 1, 2006 Taxable Value		(16,433)
	Captured Appraised Value	\$	119,640,507
2019 TIRZ Contract Revenue			
	2019 Tax Rate	2019 Tax Revenue	2019 Projected Payment(a)
Galveston County (Including Road and Flood District)	\$ 0.516137	\$ 736,600	\$ 576,558
The College of the Mainland	0.204254	291,499	228,165
City of Texas City	0.540000	770,656	603,215
Total	\$ 1.260391	\$ 1,798,755	\$ 1,407,938

(a) Pursuant to an interlocal agreement between the District and the City and the TIRZ and the Authority (the “Interlocal Agreement”), the TIRZ has agreed to annually transfer to the District the amount of Rebate attributable to the property in the District (less administration expenses) for the payment of debt service on the Contract Revenue Bonds (defined herein as the TIRZ Contract Revenue Payment). A \$100,000 administrative fee annually is assumed in calculation of projected TIRZ Revenue Payment for 2019/2020 receipt. See “RISK FACTORS—Dependence on Collection of TIRZ Contract Revenue Payments” and “—Possible Impact on District Tax Rates.”

Pursuant to an interlocal agreement between the District and the City and the TIRZ and the Authority (the “Interlocal Agreement”), the TIRZ has agreed to annually transfer to the District the amount of Rebate attributable to the property in the District (less administration expenses) for the payment of debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds (defined herein as the TIRZ Contract Revenue Payment). See “RISK FACTORS—Dependence on Collection of TIRZ Contract Revenue Payments” and “—Possible Impact on District Tax Rates.”

Previous Tax Years: Prior to 2013, there was no significant captured appraised value in the District. The table below shows the amount of TIRZ Contract Revenue received in years 2013 through 2018.

Tax Year	Captured Appraised Valuation (a)	Total Participant Tax Rate	Total Contract Revenue Payments Received by District
2013	\$ 91,145,167	\$ 1.264010	\$ 1,109,148
2014	94,593,356	1.132400	1,178,225
2015	105,397,406	1.218400	1,247,777
2016	116,290,946	1.257700	1,462,463
2017	111,810,717	1.345900	1,564,936
2018	117,719,670	1.294653	1,447,858



## UTILITY SERVICES AGREEMENT

All land in the District is located within the corporate limits of the City. The City and the District have entered into a utility services agreement, effective February 1, 2007 (the "Utility Services Agreement") as amended and supplemented, which obligates the District to acquire, construct and extend water, wastewater and storm drainage facilities (the "System") to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City. The City operates and maintains such facilities, and is responsible for establishing water and sewer rates and collecting charges for water and sewer service within the District. Detention facilities may be conveyed to Galveston County Drainage District No. 1 or maintained by the District. Pursuant to the Utility Services Agreement, the District purchases capacity in the City's water supply and wastewater treatment facilities by paying a Capital Recovery Fee to the City and the City provides permanent water supply and wastewater treatment to the land within the District. The amount of this Capital Recovery Fee may be changed by the City from time to time and at any time, subject to certain limitations imposed by state law. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in the City.

## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by BGE, Inc., the District's engineer (the "Engineer"), and were submitted to the TCEQ in the District's Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of certain agreed-upon procedures by the District's auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### CONSTRUCTION COSTS

• Detention Pond Facility to serve Lago Mar Boulevard between Holland Road and Fashion Way.....	\$	9,568
• Phase I Detention Pond to Serve M Group Apartments.....		363,930
• Drainage Facilities to Serve Lago Mar Boulevard at Holland Road.....		823,398
• Land Acquisition.....		527,710
• Engineering and Materials Testing.....		199,373
• Less: Surplus Funds Applied.....		<u>(675,000)</u>
<b>Total Construction Costs.....</b>	<b>\$</b>	<b>1,248,979</b>

### NON-CONSTRUCTION COSTS

• Underwriter's Discount (a).....	\$	57,000
• Capitalized Interest (a).....		128,250
• Developer Interest.....		<u>283,988</u>
<b>Total Non-Construction Costs.....</b>	<b>\$</b>	<b>469,238</b>

### ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$	135,133
• Bond Application Report.....		40,000
• State Regulatory Fees.....		<u>6,650</u>
<b>Total Issuance Costs and Fees.....</b>	<b>\$</b>	<b>181,783</b>
<b>TOTAL BOND ISSUE.....</b>	<b>\$</b>	<b>1,900,000</b>

(a) The TCEQ approved a maximum of \$128,250 of capitalized interest, which equals eighteen (18) months of interest at an estimated interest rate of 4.50% and a maximum Underwriter's discount of 3.00%. Calculations of capitalized interest shown throughout this PRELIMINARY OFFICIAL STATEMENT are based upon an estimated interest rate of 3.75%.

## THE DISTRICT

### **General**

The District is a political subdivision of the State of Texas created by an Act of the 79th Legislature, Regular Session, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire- fighting facilities, independently or with one or more conservation and reclamation districts, if approved by the City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance park and recreational facilities and roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City, within which the District is located, the District is required to observe certain requirements of the City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, park and recreational facilities and roads; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

### **Description and Location**

The District consists of approximately 280 acres of land, and is located approximately 30 miles southeast of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City. The District is bordered on the north and east by Interstate Highway 45 and on the south and west by undeveloped acreage within Galveston County Municipal Utility District Nos. 56 and 59. It is located approximately one and one-half miles northwest of the intersection of Interstate Highway 45 and the Emmett F. Lowry Expressway on the west side of Interstate Highway 45. See "AERIAL LOCATION MAP."

### **Land Use**

The District currently consists of approximately 132 acres served with water distribution, wastewater collection and storm drainage facilities necessary for commercial development. There are also approximately 91 acres of vacant land that is partially served with water and sewer trunklines and approximately 57 acres of undevelopable land (easements, right-of-way and utility sites).

### **Status of Development**

Development in the District consists of the Mall (350,000 square feet on approximately 55 acres) that opened in October 2012. The Mall is a single-story, open-air facility with over 80 outlet stores. Each store is individually operated and is responsible for paying the personal property taxes attributable to such store. See "RISK FACTORS—Dependence on Personal Property Tax Collections." The Mall currently includes the following stores: Aeropostale, Asics, American Eagle Outfitters, Ann Taylor Factory Store, Auntie Anne's / Cinnabon, Banana Republic Factory, Bath & Body Works, Booskies, Brooks Brothers, Calvin Klein, Carter's / OshKosh, Chico's, Claire's, Clark's, Coach, Columbia Sportswear, Converse, Crocs, Disney Store, Dressbarn, Elizabeth Arden, Express Factory Outlet, Famous Footwear, Finish Line, Fossil, Fragrance Outlet, Francesca's, Gap Outlet, Girlie Girl Originals, Go! Calendars, Guess, Haggar, Hurley, Jared Vault, Journeys, Justice, Kate Spade, Kay Jewelers, Kitchen Collection, Lane Bryant, Leggings Park, Levi's Outlet, Lids, Loft Outlet, Michael Kors, Naturalizer, New Balance Factory Store, New York & Company Outlet, Nike Factory Store, Old Navy Outlet, PacSun, Papaya Clothing, Perfumania, Polo Ralph Lauren Factory Store, Puma, Reebok, Repair Plus, Robert Wayne Footwear, Rue21, Samsonite, Skechers, Sperry, Starbucks Coffee, Sunglass Hut, Texas Sheets, The Children's Place, Tommy Bahama, Tommy Hilfiger, Torrid, Under Armour, U.S. Polo Association, Van Heusen Izod Golf, Vans, Vera Bradley, Waikiki, White House/Black Market, Wireless Plus and Zumiez plus a number of other retailers. Additionally, the Mall has three food establishments and according to Galveston Outlets, as of December 2, 2019, the Mall was 97% occupied.

Galveston Outlets has entered into leases with each tenant. While the terms of each lease differ, most of the leases are for five to ten year terms with renewal options.

In addition to the Mall, a 60,000 square foot Buc-ee's store and gas station has been constructed on approximately 30 acres; and Catalon at Lago Mar Apartments, a 230 unit apartment community has been constructed on approximately 10 acres. A hotel and restaurant facility is currently under construction on approximately 5 acres with an expected opening in the first quarter of 2020. Adventure Pointe, an amusement park was under construction on approximately 32 acres in the District, but has been delayed due litigation relating to the development of the amusement park. The District is not a party to the lawsuit and does not make any representations with regard to the status of construction and completion of the amusement park.

## **Future Development**

The District is currently planned as a primarily commercial/retail development. There are approximately 91 acres of vacant land partially served with water and sewer trunklines that will need additional utilities prior to the construction of taxable improvements. While the District anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. The District's Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$93,195,000) will be sufficient to finance the construction of water, wastewater, drainage, roadways and recreational facilities for full development of the District. See "RISK FACTORS—Undeveloped Acreage," "—Future Debt," and "THE SYSTEM."

## **THE DEVELOPERS**

### **Role of a Developer**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developer or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "RISK FACTORS—Dependence on Principal Taxpayers."

Neither Galveston Outlets, Land Tejas nor any other property owner is responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District. Neither Galveston Outlets, Land Tejas nor other property owners have any legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of their property within the District, or any other assets, at any time. See "RISK FACTORS—Developers/Property Owners Obligation to the District" and "—Dependence on Principal Taxpayers."

### **Galveston Outlets, LLC**

The developer of the Mall is Galveston Outlets, LLC, a Delaware limited liability company ("Galveston Outlets"). Galveston Outlets is a joint venture between affiliates of Simon Property Group, Inc. ("Simon" or "SPG") and Tanger Factory Outlet Centers, Inc. ("Tanger" or "SKT") and was created for the sole purpose of developing the 350,000 square foot shopping center known as "Tanger Outlet Center" in Texas City, Texas (the "Mall"). Simon and Tanger are publicly traded companies whose stock is traded on the New York Stock Exchange under the symbols SPG and SKT, respectively, and affiliates of each are a fifty percent (50%) joint venturer in Galveston Outlets. See "TAX DATA—Principal Taxpayers." An affiliate of Tanger is currently the sole managing member of Galveston outlets. The Mall is subject to liens, security interest and rights securing payment of Promissory Notes dated July 1, 2013 in the original aggregate stated principal amount of \$70,000,000 made by Galveston Outlets.

Galveston Outlets has entered into leases with each tenant. While the terms of each lease differ, most of the leases are for five to ten year terms with renewal options. See "THE DISTRICT—Status of Development" for a list of tenants in the Mall.

*Financial Information Concerning SPG and SKT:* SPG and SKT file annual, quarterly and current reports, proxy statements and other information with the SEC. SEC filings are available to the public over the internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, both SPG and SKT make available on their respective web sites (<http://www.simon.com> and [www.tangeroutlet.com](http://www.tangeroutlet.com)) their annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC. **Unless otherwise specified, information contained on SPG and SKT web sites, available by hyperlink from SPG or SKT web site or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT.** The District has not obtained any representations from SPG or SKT concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

**Land Tejas Texas City, Ltd.**

Land Tejas Texas City, Ltd., a Texas limited partnership (“Land Tejas”) whose general partners are Brende Lago Mar, L.L.C, a Texas limited liability company and Grover Lago Mar, L.L.C., a Texas limited liability company, owned all of the land in the District at the time the District was created. Land Tejas continues to own approximately 91 acres in the District.

**OGC Lago Mar Apartments, LP**

Catalon at Lago Mar Apartments, a 230 unit apartment community located on approximately 10 acres in the District, is a joint venture between Oldham Goodwin Group and MGroup. OGC Lago Mar Apartments, LP, a Texas limited partnership (“OGC Lago Mar”) whose general partner is NAPA Lago Mar Apartments, LLC, a Texas limited liability company is a special purpose entity created by Oldham Goodwin Group and MGroup for the sole purpose of developing and owning the Catalon at Lago Mar Apartments. OGC Lago Mar does not own any additional developable property in the District. See “TAX DATA—Principal Taxpayers.”

**MANAGEMENT OF THE DISTRICT**

**Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years only. None of the Board members reside within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of a Developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Rick Harsch	President	May 2022
Mary Edmiston	Vice President	May 2022
Jay Marmo	Secretary	May 2022
Stephan Selinidis	Assistant Vice President	May 2020
Matthew A. Malario	Assistant Secretary	May 2020

**District Consultants**

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District’s debt obligations. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: Masterson Advisors LLC serves as the District’s Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. for bookkeeping services (the “Bookkeeper”).

Auditor: The financial statements of the District as of March 31, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s audited financial statements for the year ended March 31, 2019.

Engineer: The District’s consulting engineer is BGE, Inc.

Tax Appraisal: The Galveston Central Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

## THE SYSTEM

### **Regulation**

Construction and operation of the District's water, wastewater and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, wastewater and storm drainage facilities is subject to the regulatory authority of the District, the City and Galveston County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

### **Water Supply and Wastewater Treatment**

Permanent water supply and wastewater treatment for the District are provided by the City pursuant to the Utility Services Agreement described more fully herein under "UTILITY SERVICES AGREEMENT." The City facilities serving the District will adequately serve the 1,400 and 604 equivalent single-family connections currently being provided with water supply and wastewater treatment, respectively and as presented to the TCEQ in the bond application requesting approval to sell the Bonds. The District currently serves approximately 564 active equivalent single-family connections. Water supply and wastewater treatment capacities for future development may require additional water supply and wastewater treatment capacity allocations by the City as provided in the Utility Services Agreement.

Water and wastewater revenues derived from the collection of charges for water and sewer services are paid directly to the City by users.

### **Water Distribution, Wastewater Collection and Storm Drainage Facilities**

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve approximately 132 acres of commercial/retail tracts. Approximately 91 vacant acres of other commercial tracts is partially served with water and sewer trunklines. See "THE DISTRICT—Status of Development."

### **Ownership and Operations**

The District (or the Developers on behalf of the District) finances and constructs the System, and thereafter conveys the components of the System to the City upon completion, subject to the District's capacity rights and the Developers' reimbursement rights pursuant to the Utility Services Agreement. The System is owned, maintained, and operated by the City. The City charges and collects the fees associated with the System. The District receives no revenues from the operation of the System; funds for the administration of the District are available from maintenance tax revenue. See "UTILITY SERVICES AGREEMENT."

### **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. Further, the Flood Insurance Rate Map associated with the District indicates that none of the land in the District is located within the effective 100-year flood plain. See "RISK FACTORS—Hurricane Harvey."

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

## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$142,714,060	(a)
Gross Direct Debt Unlimited Tax Bonds (including the Bonds and Outstanding Road Bonds) .....	\$ 6,690,000	(b)
Gross Direct Debt Outstanding Unlimited Tax and Contract Revenue Bonds.....	<u>15,435,000</u>	(b)
Total Gross Direct Debt .....	\$22,125,000	
Estimated Overlapping Debt .....	<u>14,535,061</u>	(c)
Total Gross Direct Debt and Estimated Overlapping Debt .....	\$36,660,061	
Ratio of Total Gross Direct Debt to:		
2019 Certified Taxable Assessed Valuation .....	15.50%	
Ratio of Total Gross Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	25.69%	
Total Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds) .....	\$22,125,000	(b)
<b>Less:</b> Gross Direct Self-Supporting Debt (the Outstanding Unlimited Tax and Contract Revenue Bonds).....	<u>(15,435,000)</u>	(d)
<b>Net</b> Direct Debt Outstanding (the Unlimited Tax Bonds, including the Bonds).....	\$ 6,690,000	
Estimated Overlapping Debt .....	<u>14,535,061</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$21,225,061	
Ratio of <b>Net</b> Direct Debt to:		
2019 Certified Taxable Assessed Valuation .....	4.69%	
Ratio of <b>Net</b> Direct Debt and Estimated Overlapping Debt to:		
2019 Certified Taxable Assessed Valuation.....	14.87%	
Debt Service Funds Available:		
Road Debt Service Fund Balance as of December 11, 2019.....	\$ 394,251	(e)
Capitalized Interest (Eighteen Months).....	106,875	(f)
District TIRZ Debt Service Fund as of December 11, 2019 .....	<u>2,400,919</u>	(g)
Total Debt Service Funds Available .....	\$2,902,045	
Other Funds:		
Operating Funds Available as of December 11, 2019.....	\$ 744,350	(h)
TIRZ Funds Available as of December 11, 2019.....	\$375,121	(i)
2019 Debt Service Tax Rate.....	\$0.27	(j)
2019 Maintenance Tax Rate.....	<u>0.27</u>	
2019 Total Tax Rate.....	\$0.54	

- (a) As certified by the Galveston Central Appraisal District (the “Appraisal District”).
- (b) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (c) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.”
- (d) See “RISK FACTORS—Possible Impact on District Tax Rates,” “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1,” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Tax Adequacy for Debt Service.”
- (e) Funds in the Road Debt Service Fund are available to pay debt service on the Outstanding Road Bonds (as herein defined) issued for road facilities and are not available to pay debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds (as herein defined), issued for water, wastewater and drainage facilities. Funds in the District TIRZ Debt Service Fund are available to pay debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds, issued for water, sewer and drainage facilities and are not available to pay debt service on Outstanding Road Bonds or the Bonds.
- (f) The District will capitalize eighteen (18) months of interest from Bond proceeds assuming an estimated interest rate of 3.75%. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (g) Includes the December 1, 2019, debt service payment on the Outstanding Unlimited Tax and Contract Revenue Bonds in the amount of \$829,006. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—District TIRZ Debt Service Fund.”
- (h) Includes \$675,000 in surplus funds approved for use by the TCEQ for the purpose for which the Bonds are being issued. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (i) Represents surplus TIRZ Contract Revenue, which is available for debt service on the Outstanding Contract Revenue Bonds and/or capital projects. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—District TIRZ Fund.”
- (j) See “RISK FACTORS—Possible Impact on District Tax Rates,” “—Future Debt,” and “TAX DATA—Tax Adequacy for Debt Service.”

## **Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2254, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

## **Outstanding Bonds**

The District has previously issued \$5,355,000 principal amount of unlimited tax road bonds ("Road Bonds") and \$17,050,000 principal amount of unlimited tax and contract revenue bonds ("Unlimited Tax and Contract Revenue Bonds"), of which \$4,790,000 principal amount of unlimited tax road bonds (the "Outstanding Road Bonds") and \$15,435,000 principal amount of unlimited tax and contract revenue bonds (the "Outstanding Unlimited Tax and Contract Revenue Bonds") remains outstanding. Collectively \$20,225,000 principal amount remains outstanding (the "Outstanding Bonds") as of the date hereof. The table below shows the original principal amount of the Outstanding Bonds and the amount currently outstanding.

<u>Series</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds</u>
2013 (a)	\$ 5,355,000	\$ 4,790,000
2014 (b)	11,600,000	10,190,000
2018 (b)	5,450,000	5,245,000
Total	\$ 22,405,000	\$ 20,225,000

(a) Unlimited tax road bonds.

(b) Unlimited tax and contract revenue bonds.

## **District TIRZ Fund**

Pursuant to an interlocal agreement among the District, the City, the TIRZ and the Authority (the "Interlocal Agreement"), the TIRZ and the Authority have agreed to annually transfer to the District the amount of Rebate attributable to the property in the District less an administrative fee (the "TIRZ Contract Revenue Payments") for the payment of debt service on the Outstanding Unlimited Tax and Contract Revenue Bonds. The District will deposit the TIRZ Contract Revenue Payments into the District TIRZ Fund. On or before May 1 of each year, the District will determine the amount of money necessary to pay the ensuing annual debt service on the Contract Revenue Bonds plus an amount equal to the maximum annual debt service on the Outstanding Contract Revenue Bonds and will transfer that amount to the TIRZ Debt Service Fund, if available. The monies held in the TIRZ Debt Service Fund are the "Pledged Revenues." The balance in the District TIRZ Fund as of December 11, 2019, is \$375,121. See "RISK FACTORS—Possible Impact on District Tax Rates," "THE BONDS—Source of Payment" and "CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1."

**General Operating Fund**

The System is owned and operated by the City and no water and sewer revenue is received by the District nor is the District responsible for operation, repair or maintenance of the System.

The following statement sets forth in condensed form the General Operating Fund as shown in the District’s audited financial statements for the fiscal years ended March 31, 2016 through March 31, 2019, and an unaudited summary for the period ended November 30, 2019, prepared by the Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

	3/31/2019 to 11/30/2019 (a) (Unaudited)	Fiscal Year Ended March 31			
		2019	2018	2017	2016
<b>Revenues:</b>					
Property Taxes	\$ 9,095	\$ 415,023	\$ 359,467	\$ 371,548	\$ 324,995
Investment Revenues	13,082	12,035	5,809	1,394	1,272
Total Revenue	\$ 22,177	\$ 427,058	\$ 365,276	\$ 372,942	\$ 326,267
<b>Expenditures:</b>					
Professional Fees	\$ 155,177	\$ 134,397	\$ 83,227	\$ 86,841	\$ 118,907
Purchased Services	-	-	24	607	4,899
Contracted Services	14,656	21,399	21,038	21,000	21,001
Utilities	535	5,527	4,090	8,476	6,311
Repairs and Maintenance	66,039	162,254	114,622	88,539	72,680
Capital Outlay	-	-	40,200	40,200	41,226
Interest & Fees	-	-	-	-	-
Other	26,780	27,612	15,836	18,561	18,875
Total Expenditures	\$ 263,188	\$ 351,189	\$ 279,037	\$ 264,224	\$ 283,899
NET REVENUES	\$ (241,011)	\$ 75,869	\$ 86,239	\$ 108,718	\$ 42,368
Other Financing Sources	\$ -	\$ 42,621 (b)	\$ 36,850 (b)	\$ 40,217 (b)	\$ 37,476 (b)
<b>General Operating Fund</b>					
Balance (Beginning of Year)	\$ 1,065,374	\$ 946,884	\$ 823,795	\$ 674,860	\$ 595,016
Balance (End of Year)	\$ 824,363	\$ 1,065,374	\$ 946,884	\$ 823,795	\$ 674,860

(a) Unaudited.  
(b) Interfund transfer.



## Debt Service Requirements

The following sets forth the debt service on the Outstanding Road Bonds and Outstanding Unlimited Tax and Contract Revenue Bonds and the estimated debt service on the Bonds at an estimated interest rate per annum of 3.75%. This schedule does not reflect the fact that an amount equal to eighteen (18) months of interest will be capitalized from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Road Bonds Debt Service	Outstanding Unlimited Tax and Contract Revenue Bonds Debt Service	Plus: Debt Service on the Bonds			Total Debt Service
			Principal	Interest	Total	
2020	\$ 383,650.00	\$ 1,164,773.75	\$ -	\$ 59,375.00	\$ 59,375.00	\$ 1,607,798.75
2021	383,250.00	1,174,648.75	-	71,250.00	71,250.00	1,629,148.75
2022	387,650.00	1,177,986.25	55,000	71,250.00	126,250.00	1,691,886.25
2023	391,275.00	1,184,548.75	55,000	69,187.50	124,187.50	1,700,011.25
2024	394,475.00	1,190,178.75	60,000	67,125.00	127,125.00	1,711,778.75
2025	391,825.00	1,193,773.75	60,000	64,875.00	124,875.00	1,710,473.75
2026	393,950.00	1,200,208.75	60,000	62,625.00	122,625.00	1,716,783.75
2027	400,162.50	1,203,943.75	65,000	60,375.00	125,375.00	1,729,481.25
2028	400,662.50	1,205,063.75	65,000	57,937.50	122,937.50	1,728,663.75
2029	400,162.50	1,209,753.75	70,000	55,500.00	125,500.00	1,735,416.25
2030	404,162.50	1,212,553.75	70,000	52,875.00	122,875.00	1,739,591.25
2031	406,825.00	1,218,953.75	75,000	50,250.00	125,250.00	1,751,028.75
2032	403,700.00	1,217,972.50	75,000	47,437.50	122,437.50	1,744,110.00
2033	405,050.00	1,224,467.50	80,000	44,625.00	124,625.00	1,754,142.50
2034	409,925.00	1,224,057.50	85,000	41,625.00	126,625.00	1,760,607.50
2035	408,700.00	1,231,557.50	85,000	38,437.50	123,437.50	1,763,695.00
2036	406,650.00	1,234,970.00	90,000	35,250.00	125,250.00	1,766,870.00
2037	407,962.50	1,236,145.00	95,000	31,875.00	126,875.00	1,770,982.50
2038	408,125.00	834,800.00	95,000	28,312.50	123,312.50	1,366,237.50
2039	407,137.50	-	100,000	24,750.00	124,750.00	531,887.50
2040	-	-	105,000	21,000.00	126,000.00	126,000.00
2041	-	-	110,000	17,062.50	127,062.50	127,062.50
2042	-	-	110,000	12,937.50	122,937.50	122,937.50
2043	-	-	115,000	8,812.50	123,812.50	123,812.50
2044	-	-	120,000	4,500.00	124,500.00	124,500.00
Total	\$ 7,995,300.00	\$ 22,540,357.50	\$ 1,900,000	\$ 1,099,250.00	\$ 2,999,250.00	\$ 33,534,907.50

**Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Galveston County .....	\$247,913,720	11/30/19	0.47%	\$ 1,165,194
City of Texas City .....	36,105,000	11/30/19	2.58%	931,509
College of the Mainland .....	103,935,000	11/30/19	1.18%	1,226,433
Dickinson Independent School District.....	303,025,000	11/30/19	3.70%	<u>11,211,925</u>
Total Estimated Overlapping Debt.....				\$14,535,061
Total District Direct Debt (a) .....				<u>22,125,000</u>
Total Direct and Estimated Overlapping Debt (a).....				<u>\$36,660,061</u>

Total District Direct Debt and Estimated Overlapping Debt as a Percentage of:  
 2019 Certified Taxable Assessed Valuation of \$142,714,060..... 25.69%

Total Estimated Overlapping Debt.....	\$14,535,061
Total District Direct Debt (a) .....	22,125,000
<b>Less:</b> Self Supporting Direct Debt (the Outstanding Unlimited Tax and Contract Revenue Bonds) (b) .....	<u>(15,435,000)</u>
<b>Net</b> Direct Debt (the Outstanding Road Bonds and the Bonds).....	<u>\$ 4,790,000</u>

**Net** Direct and Estimated Overlapping Debt as a Percentage of:  
 2019 Certified Taxable Assessed Valuation of \$142,714,060..... 14.87%

- (a) The Bonds and the Outstanding Bonds.
- (b) See "CITY OF TEXAS CITY TAX REINVESTMENT ZONE NO. 1."

**Overlapping Taxes**

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2019 tax year by all taxing jurisdictions overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate per \$100 of Taxable Assessed Valuation</u>
Galveston County (including Road and Flood District).....	\$ 0.516137
Galveston County Drainage District No. 1.....	0.086000
Dickinson Independent School District.....	1.450000
City of Texas City.....	0.540000
College of the Mainland.....	<u>0.204254</u>
Total Overlapping Tax Rate.....	\$ 2.796391
The District.....	<u>0.540000</u>
Total Tax Rate.....	\$ 3.336391

## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See “RISK FACTORS—Possible Impact on District Tax Rates,” “THE BONDS—Source of Payment,” “Historical Tax Rate Distribution,” “Tax Roll Information” below and “TAXING PROCEDURES.”

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted May 12, 2012, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

### Historical Tax Rate

	2019	2018	2017	2016	2015
Debt Service Tax	\$ 0.27 (a)	\$ 0.25	\$ 0.28	\$ 0.29	\$ 0.30
Maintenance Tax	0.27	0.29	0.26	0.25	0.24
Total District Tax Rate	\$ 0.54	\$ 0.54	\$ 0.54	\$ 0.54	\$ 0.54

(a) Represents road debt service tax rate allocated strictly for roads to pay debt service on the Outstanding Road Bonds. The District intends to levy a debt service tax rate allocated to water, sewer and drainage in 2020 to pay debt service on the Bonds.

### Tax Exemptions

The District has not adopted any tax exemptions for property located within the District.

### Additional Penalties

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

### Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s tax assessor/collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Certified Taxable		Tax Rate	Total Tax Levy	Total Collections As of 11/30/2019 (b)	
	Assessed Valuation (a)				Amount	Percent
2014	\$ 123,715,370		\$ 0.54	\$ 668,063	668,063	100.00%
2015	133,981,208		0.54	723,499	723,499	100.00%
2016	143,846,024		0.54	776,769	776,442	99.96%
2017	138,060,112		0.54	745,525	745,264	99.97%
2018	143,028,280		0.54	772,353	771,135	99.84%
2019	142,714,060		0.54	770,656	(c)	(c)

(a) As certified by the Appraisal District.

(b) Unaudited collections.

(c) In process of collection. Taxes for the 2019 tax year are due January 31, 2020.

## Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2015 through 2019 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2019	2018	2017	2016	2015
	Certified Taxable	Certified Taxable	Certified Taxable	Certified Taxable	Certified Taxable
	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
Land	\$ 25,480,970	\$ 25,524,350	\$ 24,551,940	\$ 27,559,400	\$ 23,506,840
Improvements	96,806,080	94,793,470	89,988,750	91,514,050	86,715,650
Personal Property	23,057,120	25,308,610	26,232,962	27,538,645	28,567,369
Exemptions	<u>(2,630,110)</u>	<u>(2,598,150)</u>	<u>(2,713,540)</u>	<u>(2,766,071)</u>	<u>(4,808,651)</u>
Total	<u>\$ 142,714,060</u>	<u>\$ 143,028,280</u>	<u>\$ 138,060,112</u>	<u>\$ 143,846,024</u>	<u>\$ 133,981,208</u>

## Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property and the principal taxpayer total as a percentage of the 2019 Certified Taxable Assessed Valuation of \$142,714,060, which represents ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
Galveston Outlets LLC (a)	\$ 77,287,290	54.16%
OGC Lago Mar Apartments LP (a)	18,541,820	12.99%
Buc-ee's Ltd.	17,337,940	12.15%
DS Management LLC	4,062,980	2.85%
Harli Group LLC	3,382,260	2.37%
Ann Taylor Retail Inc.	1,269,140	0.89%
Texas Dow Employees Credit Union	1,191,050	0.83%
PVH Retail Stores Inc.	1,101,900	0.77%
Nike Retail Services Inc.	1,031,780	0.72%
Sterling Inc.	1,025,160	0.72%
Total	<u>\$ 126,231,320</u>	<u>88.45%</u>

(a) See "THE DEVELOPERS."

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements separately on the Outstanding Road Bonds and the Bonds (collectively referred to herein as the “Unlimited Tax Bonds”) and the Outstanding Unlimited Tax and Contract Revenue Bonds, if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$142,714,060. Calculations assume ninety-five percent (95%) of taxes levied are collected, the sale of no additional bonds, and no other funds available for the payment of debt service. The same calculation collectively for the Bonds and the Outstanding Bonds, is also set forth below and further assumes that no TIRZ Contract Revenue Payments were available. See “RISK FACTORS—Possible Impact on District Tax Rates,” “THE BONDS—Source of Payment” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”

**The Unlimited Tax Bonds, including the Bonds:**

Average Annual Debt Service Requirement (2020-2044).....	\$439,782
\$0.33 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$447,409
Maximum Annual Debt Service Requirement (2034).....	\$536,550
\$0.40 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$542,313

**The Outstanding Unlimited Tax and Contract Revenue Bonds:**

Average Annual Debt Service Requirement on the Outstanding Bonds (2020-2038).....	\$1,186,335
\$0.88 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,193,090
Maximum Annual Debt Service (2037).....	\$1,236,145
\$0.92 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,247,321

**The Bonds and the Outstanding Bonds:**

Average Annual Debt Service Requirement (2020-2044).....	\$1,341,396
\$0.99 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,342,226
Maximum Annual Debt Service (2037).....	\$1,770,983
\$1.31 Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$1,776,076

The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the principal and interest on the Outstanding Unlimited Tax and Contract Revenue Bonds over the life of the Outstanding Unlimited Tax and Contract Revenue Bonds; the District does not expect to levy an ad valorem tax in connection with the debt service of the Outstanding Unlimited Tax and Contract Revenue Bonds. The 2019 TIRZ Contract Revenue Payment is projected to be \$1,407,938 (receipt in 2020), which exceeds the average annual (\$1,186,335) and maximum annual debt service (\$1,236,145) amounts above for the Outstanding Contract Revenue Bonds; therefore, no ad valorem tax rate levy is required to meet average annual or maximum debt service on the Outstanding Contract Revenue Bonds. See “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1” and “TIRZ Contract Revenue” herein.

## TAXING PROCEDURES

### **Authority to Levy Taxes**

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

### **Property Tax Code and County-Wide Appraisal District**

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

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

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. 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 spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also 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. See “TAX DATA.”

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

***Freeport Goods Exemption:*** A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit 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 or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Galveston County, the City and the District, under certain circumstances, 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 appraised valuation of property covered by the agreement over its appraised 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. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land and timberland.

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

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

## **District and Taxpayer Remedies**

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

The Property Tax Code 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 value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

## **Levy and Collection of Taxes**

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

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

## **Rollback of Operation and Maintenance Tax Rate**

Under current law, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "SELECTED FINANCIAL INFORMATION (UNAUDITED)" for a description of the District's current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 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 pursuant to SB 2 is described for each classification below.



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

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

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

*The District:* A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. 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.

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "RISK FACTORS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

## **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## **LEGAL MATTERS**

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “UTILITY SERVICES AGREEMENT,” “CITY OF TEXAS CITY TAX INCREMENT REINVESTMENT ZONE NO. 1,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developers for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

### **No Material Adverse Change**

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

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## TAX MATTERS

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

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

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

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

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

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

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

### **Tax Accounting Treatment of Original Issue Discount Bonds**

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

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

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

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

### **Qualified Tax-Exempt Obligations**

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

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

## **PREPARATION OF OFFICIAL STATEMENT**

### **Sources and Compilation of Information**

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein 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.

### **Financial Advisor**

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **Consultants**

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such entity as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" has been provided by BGE, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The financial statements of the District as of March 31, 2019, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's audited financial statements for the year ended March 31, 2019.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—General Operating Fund" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

## **Updating the Official Statement**

If subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District 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 as required by law (but not more than 90 days after the date the District delivers the Bonds).

## **Certification of Official Statement**

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

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

### **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Independent Auditors Report and Financial Statements of the District for the fiscal year ended March 31, 2019 and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any financial statements 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 period to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Event Notices**

The District will provide timely notices of certain 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 determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (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 Resolutions make 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 the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

**Limitations and Amendments**

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

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

**Compliance With Prior Undertakings**

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

**MISCELLANEOUS**

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

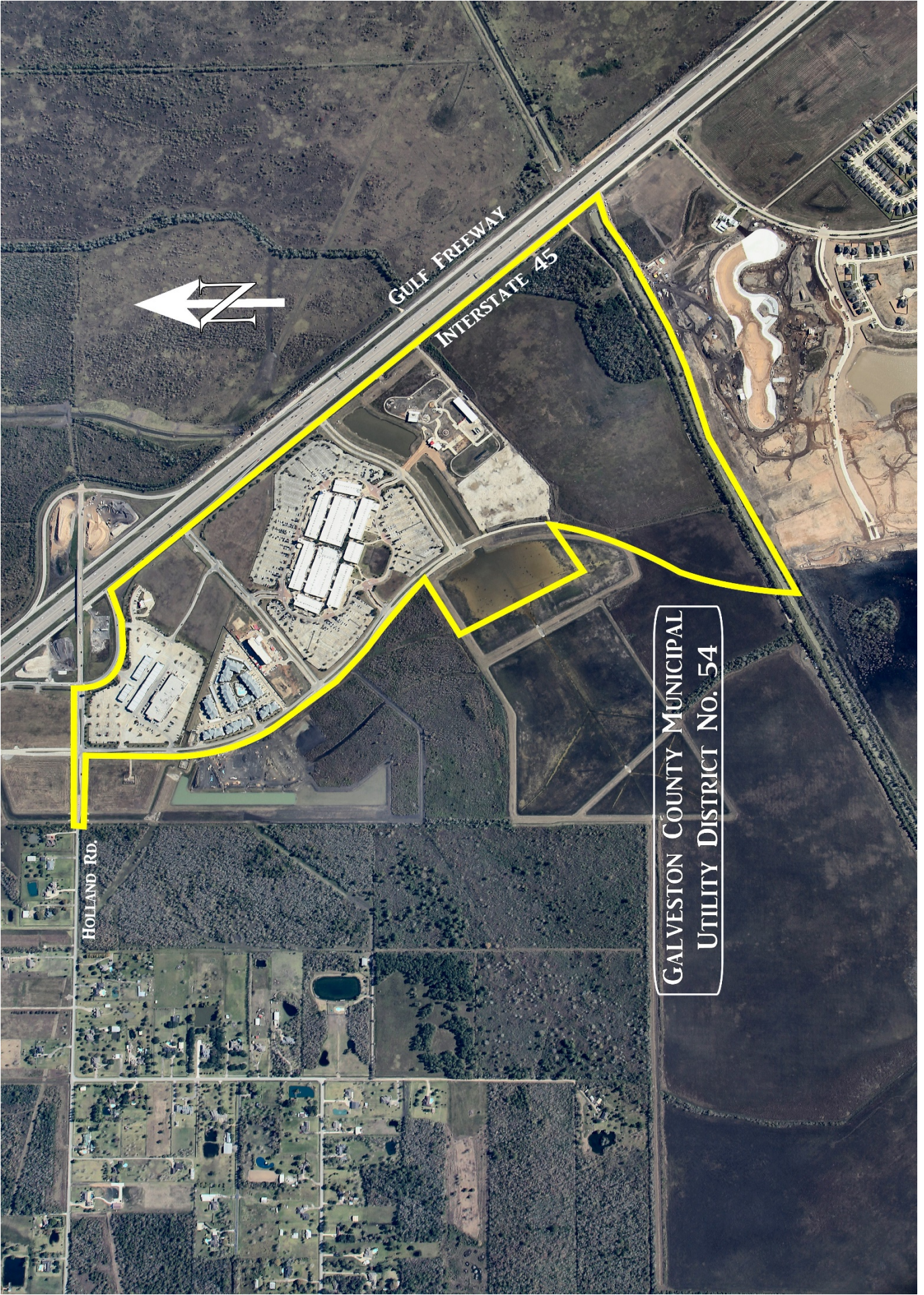
/s/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

/s/ \_\_\_\_\_  
Secretary, Board of Directors

**AERIAL PHOTOGRAPH**  
**(As of December 2019)**





HOLLAND RD.

GULF FREEWAY  
INTERSTATE 45



GALVESTON COUNTY MUNICIPAL  
UTILITY DISTRICT No. 54

**PHOTOGRAPHS OF THE DISTRICT  
(As of December 2019)**















**APPENDIX A**

**Independent Auditor's Report and Financial Statements of the District  
for the fiscal year ended March 31, 2019.**

**Galveston County Municipal Utility District No. 54**

Galveston County, Texas

Independent Auditor's Report and Financial Statements

March 31, 2019



**Galveston County Municipal Utility District No. 54**  
**March 31, 2019**

**Contents**

<b>Independent Auditor's Report</b> .....	<b>1</b>
<b>Management's Discussion and Analysis</b> .....	<b>3</b>
<b>Basic Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	9
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	11
Notes to Financial Statements.....	12
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund .....	24
Notes to Required Supplementary Information .....	25
<b>Other Information</b>	
Other Schedules Included Within This Report .....	26
Schedule of Services and Rates .....	27
Schedule of General Fund Expenditures.....	28
Schedule of Temporary Investments .....	29
Analysis of Taxes Levied and Receivable .....	30
Schedule of Long-term Debt Service Requirements by Years .....	32
Changes in Long-term Bonded Debt .....	36
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund.....	37
Board Members, Key Personnel and Consultants.....	39

## Independent Auditor's Report

Board of Directors  
Galveston County Municipal Utility District No. 54  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Galveston County Municipal Utility District No. 54 (the District), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District as of March 31, 2019, 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.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
August 12, 2019

# **Galveston County Municipal Utility District No. 54**

## **Management's Discussion and Analysis**

### **March 31, 2019**

#### **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. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. 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.

**Galveston County Municipal Utility District No. 54**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2019**

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.

**Galveston County Municipal Utility District No. 54**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2019**

**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**

	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 7,395,596	\$ 3,465,739
Capital assets	<u>4,027,789</u>	<u>1,180,539</u>
Total assets	<u>\$ 11,423,385</u>	<u>\$ 4,646,278</u>
Long-term liabilities	\$ 30,012,167	\$ 23,007,810
Other liabilities	<u>315,042</u>	<u>290,487</u>
Total liabilities	<u>30,327,209</u>	<u>23,298,297</u>
Net position:		
Net investment in capital assets	(22,859,478)	(21,717,596)
Restricted	2,888,322	2,116,465
Unrestricted	<u>1,067,332</u>	<u>949,112</u>
Total net position	<u>\$ (18,903,824)</u>	<u>\$ (18,652,019)</u>

The total net position of the District decreased by \$251,805, or 1 percent. The decrease in net position is related to conveyance of capital assets to another governmental entity.

At March 31, 2019, net investment in capital assets was \$(22,859,478). This amount was negative because the District has an obligation to sell bonds to finance the construction or acquisition of capital assets, which have been conveyed to the City of Texas 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**

	<b>2019</b>	<b>2018</b>
Revenues:		
Property taxes	\$ 772,324	\$ 745,525
TIRZ tax rebates	1,564,965	1,462,463
Other revenues	<u>79,722</u>	<u>31,430</u>
Total revenues	<u>2,417,011</u>	<u>2,239,418</u>



**Galveston County Municipal Utility District No. 54**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2019**

**Summary of Changes in Net Position (Continued)**

	<b>2019</b>	<b>2018</b>
Expenses:		
Services	\$ 388,005	\$ 303,349
Conveyance of capital assets	1,184,944	-
Debt service	1,095,867	691,468
Total expenses	2,668,816	994,817
Change in net position	(251,805)	1,244,601
Net position, beginning of year	(18,652,019)	(19,896,620)
Net position, end of year	\$ (18,903,824)	\$ (18,652,019)

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended March 31, 2019, were \$7,356,231, an increase of \$3,961,669 from the prior year.

The general fund's fund balance increased by \$118,490 due to property tax revenues being greater than service operation expenditures.

The debt service fund's fund balance increased by \$811,044 due to property tax revenues and TIRZ tax rebates received exceeding bond principal and interest requirements.

The capital projects fund's fund balance increased by \$3,032,135 due to proceeds received from the sale of the Series 2018 bonds. From the proceeds of the debt, the District repaid its developers for facilities located within the District's boundaries.

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property tax and investment income revenues, as well as professional fee expenditures being higher than anticipated. In addition, interfund transfers received were not included in the current year budget. The fund balance as of March 31, 2019, was expected to be \$1,067,134 and the actual end-of-year fund balance was \$1,065,374.

**Galveston County Municipal Utility District No. 54**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2019**

**Capital Assets and Related Debt**

**Capital Assets**

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

	<b>2019</b>	<b>2018</b>
Land and improvements	\$ 4,027,789	\$ 1,180,539

During the current year, additions to capital assets were as follows:

13.55-acre detention pond	\$ 361,965
19.19-acre Tejas detention pond	478,322
17.63-acre Buc-ee's detention pond	2,006,963
Total additions to capital assets	\$ 2,847,250

Developers within the District have constructed water, sewer, drainage and detention facilities on behalf of the District under terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of March 31, 2019, a liability for developer-constructed capital assets of \$9,701,600 was recorded in the government-wide financial statements.

**Debt**

The changes in the debt position of the District during the year ended March 31, 2019, are summarized as follows:

Long-term debt payable, beginning of year	\$ 23,007,810
Increases in long-term debt	8,985,784
Decreases in long-term debt	(1,981,427)
Long-term debt payable, end of year	\$ 30,012,167

At March 31, 2019, the District had \$60,175,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems, \$16,000,000 for financing and constructing recreational facilities, and \$18,920,000 for financing and constructing roads within the District.

The District's bonds are not rated.

**Galveston County Municipal Utility District No. 54**  
**Management's Discussion and Analysis (Continued)**  
**March 31, 2019**

**Other Relevant Factors**

Utility Services Agreement between the District and the City of Texas City

On February 1, 2007, the District approved a utility services agreement (the agreement) with the City, which was amended June 20, 2007. The agreement obligates the District to acquire, construct and extend water, sanitary sewer and drainage facilities to serve land in the District and, when completed in accordance with approved plans and specifications, the District is to convey title to such utility facilities to the City. The City then operates and maintains such facilities and is responsible for establishing water and sewer rates and collection charges for water and sewer services.

**Galveston County Municipal Utility District No. 54**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**March 31, 2019**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>						
Cash	\$ 185,091	\$ 557,000	\$ 3,142,986	\$ 3,885,077	\$ -	\$ 3,885,077
Short-term investments	819,890	2,685,541	-	3,505,431	-	3,505,431
Property taxes receivable	1,958	1,809	-	3,767	-	3,767
Interfund receivable	83,312	-	-	83,312	(83,312)	-
Prepaid expenditures	1,321	-	-	1,321	-	1,321
Capital assets:						
Land and improvements	-	-	-	-	4,027,789	4,027,789
<b>Total assets</b>	<b>\$ 1,091,572</b>	<b>\$ 3,244,350</b>	<b>\$ 3,142,986</b>	<b>\$ 7,478,908</b>	<b>\$ 3,944,477</b>	<b>\$ 11,423,385</b>

**Galveston County Municipal Utility District No. 54**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**March 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 24,240	\$ 352	\$ -	\$ 24,592	\$ -	\$ 24,592
Accrued interest payable	-	11,006	-	11,006	279,444	290,450
Interfund payable	-	83,312	-	83,312	(83,312)	-
Long-term liabilities:						
Due within one year	-	-	-	-	645,000	645,000
Due after one year	-	-	-	-	29,367,167	29,367,167
<b>Total liabilities</b>	<u>24,240</u>	<u>94,670</u>	<u>0</u>	<u>118,910</u>	<u>30,208,299</u>	<u>30,327,209</u>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	1,958	1,809	0	3,767	(3,767)	0
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable, prepaid expenditures	1,321	-	-	1,321	(1,321)	-
Restricted:						
Unlimited tax bonds	-	2,392,520	-	2,392,520	(2,392,520)	-
Water, sewer and drainage	-	-	3,142,986	3,142,986	(3,142,986)	-
Roads	-	755,351	-	755,351	(755,351)	-
Unassigned	1,064,053	-	-	1,064,053	(1,064,053)	-
<b>Total fund balances</b>	<u>1,065,374</u>	<u>3,147,871</u>	<u>3,142,986</u>	<u>7,356,231</u>	<u>(7,356,231)</u>	<u>0</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 1,091,572</u>	<u>\$ 3,244,350</u>	<u>\$ 3,142,986</u>	<u>\$ 7,478,908</u>		
Net position:						
Net investment in capital assets					(22,859,478)	(22,859,478)
Restricted for debt service					2,870,236	2,870,236
Restricted for capital projects					18,086	18,086
Unrestricted					1,067,332	1,067,332
<b>Total net position</b>					<u>\$ (18,903,824)</u>	<u>\$ (18,903,824)</u>

**Galveston County Municipal Utility District No. 54**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended March 31, 2019**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 415,023	\$ 358,177	\$ -	\$ 773,200	\$ (876)	\$ 772,324
TIRZ tax rebates	-	1,564,965	-	1,564,965	-	1,564,965
Penalty and interest	-	1,959	-	1,959	(487)	1,472
Investment income	12,035	48,990	17,225	78,250	-	78,250
Total revenues	<u>427,058</u>	<u>1,974,091</u>	<u>17,225</u>	<u>2,418,374</u>	<u>(1,363)</u>	<u>2,417,011</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Professional fees	134,397	822	-	135,219	21,390	156,609
Contracted services	21,399	10,145	-	31,544	-	31,544
Utilities	5,527	-	-	5,527	-	5,527
Repairs and maintenance	162,254	-	-	162,254	-	162,254
Other expenditures	27,612	3,768	315	31,695	376	32,071
Capital outlay	-	-	1,928,182	1,928,182	(1,928,182)	-
Conveyance of capital assets	-	-	-	-	1,184,944	1,184,944
Debt service:						
Principal retirement	-	420,000	-	420,000	(420,000)	-
Interest and fees	-	673,319	-	673,319	67,083	740,402
Debt issuance costs	-	-	355,465	355,465	-	355,465
Total expenditures/expenses	<u>351,189</u>	<u>1,108,054</u>	<u>2,283,962</u>	<u>3,743,205</u>	<u>(1,074,389)</u>	<u>2,668,816</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>75,869</u>	<u>866,037</u>	<u>(2,266,737)</u>	<u>(1,324,831)</u>	<u>1,073,026</u>	
<b>Other Financing Sources (Uses)</b>						
Interfund transfers in (out)	42,621	(54,993)	12,372	-	-	
General obligation bonds issued	-	-	5,450,000	5,450,000	(5,450,000)	
Discount on debt issued	-	-	(163,500)	(163,500)	163,500	
Total other financing sources (uses)	<u>42,621</u>	<u>(54,993)</u>	<u>5,298,872</u>	<u>5,286,500</u>	<u>(5,286,500)</u>	
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	118,490	811,044	3,032,135	3,961,669	(3,961,669)	
<b>Change in Net Position</b>					(251,805)	(251,805)
<b>Fund Balances/Net Position</b>						
Beginning of year	946,884	2,336,827	110,851	3,394,562	-	(18,652,019)
End of year	<u>\$ 1,065,374</u>	<u>\$ 3,147,871</u>	<u>\$ 3,142,986</u>	<u>\$ 7,356,231</u>	<u>\$ 0</u>	<u>\$ (18,903,824)</u>

# **Galveston County Municipal Utility District No. 54**

## **Notes to Financial Statements**

### **March 31, 2019**

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

Galveston County Municipal Utility District No. 54 (the District) was created and is operating pursuant to a special act of the 79<sup>th</sup> Texas Legislature, now codified at Chapter 8147 of the Texas Special District Local Laws Code, effective June 17, 2005 (inception), 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 Texas Commission on Environmental Quality (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 Texas 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.

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

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 and developer advances.

*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.



**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

***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.

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

***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. Operating 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.

***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 Directors 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.

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 March 31, 2019, include collections during the current period or within 60 days of year-end related to the 2018 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 March 31, 2019, the 2018 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 conveys title to the majority of its capital assets to the City upon completion pursuant to an agreement originating in 2007.

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

***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.

***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.

The District has financed water, sewer and drainage facilities, which have been conveyed to the City, which has caused long-term debt to be in excess of capital assets.

***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:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 4,027,789
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to the availability of funds in the fund financial statements.	3,767

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	\$ (279,444)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(30,012,167)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (26,260,055)</u></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.	\$ 3,961,669
Governmental funds report capital outlays as expenditures. However, for the government-wide financial statements, due to a utility agreement with the City, all capital assets constructed by the District with the exception of detention facilities are conveyed to the City upon completion. This is the amount by which capital outlay expenditures exceeded conveyance of capital assets and noncapitalized costs in the current period.	721,472
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.	163,500
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.	(5,030,000)
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(1,363)
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>(67,083)</u>
Change in net position of governmental activities.	<u><u>\$ (251,805)</u></u>

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

**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 March 31, 2019, the District had deposits of \$1,738,421 at one bank that exceeded federal depository insurance and pledged securities. In April 2019, additional securities were pledged and there were no longer any bank balances exposed to custodial 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.

The District invests in TexSTAR, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Directors, made up of participants and representatives of the administrator and investment manager, has oversight of TexSTAR. The District's investments may be redeemed at any time. TexSTAR attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques.

At March 31, 2019, the District had the following investments and maturities.

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

Type	Maturities in Years				
	Amortized Cost	Less Than 1	1-5	6-10	More Than 10
TexSTAR	\$ 3,505,431	\$ 3,505,431	\$ 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 March 31, 2019, the District's investments in TexSTAR were rated "AAAm" by Standard & Poor's.

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at March 31, 2019, as follows:

Carrying value:		
Deposits		\$ 3,885,077
Investments		<u>3,505,431</u>
Total		<u>\$ 7,390,508</u>

**Investment Income**

Investment income of \$78,250 for the year ended March 31, 2019, consisted of interest income.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended March 31, 2019, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 1,180,539	\$ 2,847,250	\$ 4,027,789

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended March 31, 2019, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ 15,840,000	\$ 5,450,000	\$ 420,000	\$ 20,870,000	\$ 645,000
Less discounts on bonds	(408,012)	(163,500)	(12,079)	(559,433)	-
	<u>15,431,988</u>	<u>5,286,500</u>	<u>407,921</u>	<u>20,310,567</u>	<u>645,000</u>
Due to developers	7,575,822	3,699,284	1,573,506	9,701,600	-
	<u>7,575,822</u>	<u>3,699,284</u>	<u>1,573,506</u>	<u>9,701,600</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 23,007,810</u>	<u>\$ 8,985,784</u>	<u>\$ 1,981,427</u>	<u>\$ 30,012,167</u>	<u>\$ 645,000</u>

**General Obligation Bonds**

	<b>Road Series 2013</b>	<b>Series 2014</b>
Amounts outstanding, March 31, 2019	\$4,915,000	\$10,505,000
Interest rates	3.75% to 5.75%	2.00% to 4.50%
Maturity dates, serially beginning/ending	December 1, 2019/2039	December 1, 2019/2037
Interest payment dates	June 1/ December 1	June 1/ December 1
Callable dates*	December 1, 2021	December 1, 2021
		<b>Series 2018</b>
Amount outstanding, March 31, 2019		\$5,450,000
Interest rates		3.00% to 4.35%
Maturity dates, serially beginning/ending		December 1, 2019/2038
Interest payment dates		June 1/ December 1
Callable date*		December 1, 2024

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

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

***Annual Debt Service Requirements***

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at March 31, 2019.

Year	Principal	Interest	Total
2020	\$ 645,000	\$ 871,349	\$ 1,516,349
2021	695,000	853,424	1,548,424
2022	725,000	832,899	1,557,899
2023	755,000	810,636	1,565,636
2024	790,000	785,824	1,575,824
2025-2029	4,495,000	3,479,245	7,974,245
2030-2034	5,640,000	2,463,599	8,103,599
2035-2039	6,740,000	1,062,891	7,802,891
2040	385,000	22,138	407,138
Total	<u>\$ 20,870,000</u>	<u>\$ 11,182,005</u>	<u>\$ 32,052,005</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 – water, sewer and drainage facilities	\$ 77,225,000
Bonds sold – water, sewer and drainage facilities	17,050,000
Bonds voted – parks	16,000,000
Bonds voted – roads	24,275,000
Bonds sold – roads	5,355,000

***Due to Developers***

Developers of the District have constructed water and sewer facilities on behalf of the District. The District's engineer estimates reimbursable costs for completed projects are \$9,701,600. The District has conveyed the facilities, with the exception of detention, to the City and has agreed to reimburse the developers for these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.



**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

**Note 5: Significant Bond Resolution 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 current year ended March 31, 2019, the District levied an ad valorem debt service road tax at the rate of \$0.2500 per \$100 of assessed valuation, which resulted in a tax levy of \$357,571 on the taxable valuation of \$143,028,280 for the 2018 tax year. The interest and principal requirements to be paid from the tax revenues and available debt service fund resources are \$378,338.
- B. The Commission required the District to escrow \$2,949,705 from the proceeds of its Series 2018 bonds. At March 31, 2019, the escrowed funds were invested in a money market account.

**Note 6: Maintenance Taxes**

At an election held May 12, 2012, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended March 31, 2019, the District levied an ad valorem maintenance tax at the rate of \$0.2900 per \$100 of assessed valuation, which resulted in a tax levy of \$414,782 on the taxable valuation of \$143,028,280 for the 2018 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Utility Services Agreement**

The District approved a 50-year utility services agreement with the City on February 1, 2007, which was amended June 20, 2007. Under the terms of the agreement, the District will provide for the construction and financing of water distribution and wastewater collection facilities and storm water drainage improvements to serve the District. The District shall be the owner of the facilities until the facilities are completed and approved by the City, at which time ownership of the facilities will be conveyed to the City. The City agrees to reserve water and sewer capacity to serve persons within the District. The City will fix rates and charges for customers in the District equal and uniform to the rates charged to other similar users within the City and all revenues from the conveyed facilities shall belong exclusively to the City. Detention facilities may be conveyed to Galveston County Drainage District No. 1 or maintained by the District.

**Note 8: Tax Increment Reinvestment Zone No. 1**

In 2006, the City created Tax Increment Reinvestment Zone No. 1, City of Texas City, Texas (the TIRZ), which includes all of the acreage in the District, for the purpose of funding certain infrastructure costs for development in the TIRZ. In addition, the City created the Lago Mar Development Authority (the Authority) to administer the TIRZ on behalf of the City. Pursuant to an interlocal agreement between the District, the City, the TIRZ and the Authority, on an annual basis,

**Galveston County Municipal Utility District No. 54**  
**Notes to Financial Statements**  
**March 31, 2019**

the Authority will remit a rebate of certain tax revenues collected from participants in the TIRZ to the District to be used for the payment of debt service on the District's Series 2014 and Series 2018 contract revenue bonds and to pay for TIRZ projects. During the current year, the District received \$1,564,965 under the terms of this agreement. The District deposits payments received in the TIRZ fund and transfers the amounts necessary to make the next year's payments on the Series 2014 and Series 2018 contract revenue bonds to the debt service fund. The District also uses TIRZ payments to provide a one-year reserve of maximum annual debt service on the Series 2014 and Series 2018 contract revenue bonds, which is held in the debt service fund. The interest and principal requirements to be paid in 2019 from tax rebates are \$1,138,011.

**Note 9: 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 in the past three fiscal years.

## **Required Supplementary Information**

**Galveston County Municipal Utility District No. 54**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended March 31, 2019**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Property taxes	\$ 370,000	\$ 406,600	\$ 415,023	\$ 8,423
Investment income	5,000	5,000	12,035	7,035
<b>Total revenues</b>	<b>375,000</b>	<b>411,600</b>	<b>427,058</b>	<b>15,458</b>
<b>Expenditures</b>				
Service operations:				
Professional fees	94,000	94,000	134,397	(40,397)
Contracted services	21,200	21,200	21,399	(199)
Utilities	5,500	5,500	5,527	(27)
Repairs and maintenance	129,500	139,500	162,254	(22,754)
Other expenditures	31,150	31,150	27,612	3,538
<b>Total expenditures</b>	<b>281,350</b>	<b>291,350</b>	<b>351,189</b>	<b>(59,839)</b>
<b>Excess of Revenues Over Expenditures</b>	<b>93,650</b>	<b>120,250</b>	<b>75,869</b>	<b>(44,381)</b>
<b>Other Financing Sources</b>				
Interfund transfers in	-	-	42,621	42,621
<b>Excess of Revenues and Transfers In Over Expenditures and Transfers Out</b>	<b>93,650</b>	<b>120,250</b>	<b>118,490</b>	<b>(1,760)</b>
<b>Fund Balance, Beginning of Year</b>	<b>946,884</b>	<b>946,884</b>	<b>946,884</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b>\$ 1,040,534</b>	<b>\$ 1,067,134</b>	<b>\$ 1,065,374</b>	<b>\$ (1,760)</b>

**Galveston County Municipal Utility District No. 54**  
**Notes to Required Supplementary Information**  
**March 31, 2019**

***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 amended during fiscal 2019.

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**

**Galveston County Municipal Utility District No. 54**  
**Other Schedules Included Within This Report**  
**March 31, 2019**

(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
- [X] Board Members, Key Personnel and Consultants

**Galveston County Municipal Utility District No. 54**  
**Schedule of Services and Rates**  
**Year Ended March 31, 2019**

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 checked="" 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> District services are provided by the City of Texas City.</u>                           |   |                                     |
-



**Galveston County Municipal Utility District No. 54**  
**Schedule of General Fund Expenditures**  
**Year Ended March 31, 2019**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	14,600	
Legal		78,479	
Engineering		41,318	
Financial advisor		-	134,397
		<hr/>	
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			-
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping		12,394	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		9,005	21,399
		<hr/>	
<b>Utilities</b>			5,527
<b>Repairs and Maintenance</b>			162,254
<b>Administrative Expenditures</b>			
Directors' fees		7,350	
Office supplies		1,315	
Insurance		6,267	
Other administrative expenditures		12,680	27,612
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		-	
Expenditures not capitalized		-	-
		<hr/>	
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			-
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			-
			<hr/>
Total expenditures		\$	<u><u>351,189</u></u>

**Galveston County Municipal Utility District No. 54**  
**Schedule of Temporary Investments**  
**March 31, 2019**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
TexSTAR	2.43%	Demand	\$ 819,890	\$ 0
<b>Debt Service Fund</b>				
TexSTAR	2.43%	Demand	39,701	-
TexSTAR	2.43%	Demand	361,955	-
TexSTAR	2.43%	Demand	2,283,885	-
			<u>2,685,541</u>	<u>0</u>
Totals			<u>\$ 3,505,431</u>	<u>\$ 0</u>

**Galveston County Municipal Utility District No. 54**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended March 31, 2019**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 2,228	\$ 2,415
Additions and corrections to prior years' taxes	(29)	-
Adjusted receivable, beginning of year	2,199	2,415
 <b>2018 Original Tax Levy</b>	 414,921	 357,691
Additions and corrections	(139)	(120)
Adjusted tax levy	414,782	357,571
Total to be accounted for	416,981	359,986
Tax collections:     Current year	(413,311)	(356,303)
Prior years	(1,712)	(1,874)
Receivable, end of year	\$ 1,958	1,809
 <b>Receivable, by Years</b>		
2018	\$ 1,471	\$ 1,268
2017	316	340
2016	151	176
2015	20	25
Receivable, end of year	\$ 1,958	\$ 1,809

**Galveston County Municipal Utility District No. 54**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended March 31, 2019**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Property Valuations</b>				
Land	\$ 25,524,350	\$ 24,551,940	\$ 27,559,400	\$ 23,506,840
Improvements	94,793,470	89,988,750	91,514,050	87,925,650
Personal property	25,308,610	26,232,962	27,538,645	28,768,969
Exemptions	<u>(2,598,150)</u>	<u>(2,713,540)</u>	<u>(2,766,071)</u>	<u>(4,808,651)</u>
 Total property valuations	 <u>\$ 143,028,280</u>	 <u>\$ 138,060,112</u>	 <u>\$ 143,846,024</u>	 <u>\$ 135,392,808</u>
 <b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.2500	\$ 0.2800	\$ 0.2900	\$ 0.3000
Maintenance tax rates*	<u>0.2900</u>	<u>0.2600</u>	<u>0.2500</u>	<u>0.2400</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.5400</u>	 <u>\$ 0.5400</u>	 <u>\$ 0.5400</u>	 <u>\$ 0.5400</u>
 <b>Tax Levy</b>				
	<u>\$ 772,353</u>	<u>\$ 745,525</u>	<u>\$ 776,851</u>	<u>\$ 732,004</u>
 <b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.50 on May 12, 2012

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

**Galveston County Municipal Utility District No. 54**  
**Schedule of Long-term Debt Service Requirements by Years**  
**March 31, 2019**

Due During Fiscal Years Ending March 31	Road Series 2013		
	Principal Due December 1	Interest Due June 1, December 1	Total
2020	\$ 125,000	\$ 253,338	\$ 378,338
2021	135,000	248,650	383,650
2022	140,000	243,250	383,250
2023	150,000	237,650	387,650
2024	160,000	231,275	391,275
2025	170,000	224,475	394,475
2026	175,000	216,825	391,825
2027	185,000	208,950	393,950
2028	200,000	200,162	400,162
2029	210,000	190,662	400,662
2030	220,000	180,162	400,162
2031	235,000	169,162	404,162
2032	250,000	156,825	406,825
2033	260,000	143,700	403,700
2034	275,000	130,050	405,050
2035	295,000	114,925	409,925
2036	310,000	98,700	408,700
2037	325,000	81,650	406,650
2038	345,000	62,962	407,962
2039	365,000	43,125	408,125
2040	385,000	22,138	407,138
Totals	\$ 4,915,000	\$ 3,458,636	\$ 8,373,636

**Galveston County Municipal Utility District No. 54**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**March 31, 2019**

Due During Fiscal Years Ending March 31	Series 2014		
	Principal Due December 1	Interest Due June 1, December 1	Total
2020	\$ 315,000	\$ 409,481	\$ 724,481
2021	335,000	402,394	737,394
2022	355,000	394,019	749,019
2023	375,000	384,256	759,256
2024	395,000	373,006	768,006
2025	420,000	361,156	781,156
2026	445,000	347,506	792,506
2027	470,000	331,932	801,932
2028	500,000	314,306	814,306
2029	525,000	294,306	819,306
2030	560,000	273,306	833,306
2031	590,000	250,906	840,906
2032	625,000	227,306	852,306
2033	660,000	201,525	861,525
2034	700,000	173,476	873,476
2035	740,000	143,725	883,725
2036	785,000	112,275	897,275
2037	830,000	76,950	906,950
2038	880,000	39,600	919,600
Totals	\$ 10,505,000	\$ 5,111,431	\$ 15,616,431

**Galveston County Municipal Utility District No. 54**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**March 31, 2019**

Due During Fiscal Years Ending March 31	Series 2018		
	Principal Due December 1	Interest Due June 1, December 1	Total
2020	\$ 205,000	\$ 208,530	\$ 413,530
2021	225,000	202,380	427,380
2022	230,000	195,630	425,630
2023	230,000	188,730	418,730
2024	235,000	181,543	416,543
2025	235,000	174,023	409,023
2026	235,000	166,268	401,268
2027	240,000	158,278	398,278
2028	240,000	149,638	389,638
2029	245,000	140,758	385,758
2030	245,000	131,448	376,448
2031	250,000	121,647	371,647
2032	255,000	111,647	366,647
2033	255,000	101,447	356,447
2034	260,000	90,992	350,992
2035	260,000	80,332	340,332
2036	265,000	69,282	334,282
2037	270,000	58,020	328,020
2038	270,000	46,545	316,545
2039	800,000	34,800	834,800
Totals	\$ 5,450,000	\$ 2,611,938	\$ 8,061,938

**Galveston County Municipal Utility District No. 54**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**March 31, 2019**

Due During Fiscal Years Ending March 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 645,000	\$ 871,349	\$ 1,516,349
2021	695,000	853,424	1,548,424
2022	725,000	832,899	1,557,899
2023	755,000	810,636	1,565,636
2024	790,000	785,824	1,575,824
2025	825,000	759,654	1,584,654
2026	855,000	730,599	1,585,599
2027	895,000	699,160	1,594,160
2028	940,000	664,106	1,604,106
2029	980,000	625,726	1,605,726
2030	1,025,000	584,916	1,609,916
2031	1,075,000	541,715	1,616,715
2032	1,130,000	495,778	1,625,778
2033	1,175,000	446,672	1,621,672
2034	1,235,000	394,518	1,629,518
2035	1,295,000	338,982	1,633,982
2036	1,360,000	280,257	1,640,257
2037	1,425,000	216,620	1,641,620
2038	1,495,000	149,107	1,644,107
2039	1,165,000	77,925	1,242,925
2040	385,000	22,138	407,138
Totals	<u>\$ 20,870,000</u>	<u>\$ 11,182,005</u>	<u>\$ 32,052,005</u>



**Galveston County Municipal Utility District No. 54**  
**Changes in Long-term Bonded Debt**  
**Year Ended March 31, 2019**

	<b>Bond Issues</b>			
	<b>Road Series 2013</b>	<b>Series 2014</b>	<b>Series 2018</b>	<b>Totals</b>
Interest rates	3.75% to 5.75%	2.00% to 4.50%	3.00% to 4.35%	
Dates interest payable	June 1/ December	June 1/ December	June 1/ December	
Maturity dates	December 1, 2019/2039	December 1, 2019/2037	December 1, 2019/2038	
Bonds outstanding, beginning of current year	\$ 5,035,000	\$ 10,805,000	\$ -	\$ 15,840,000
Bonds sold during current year	-	-	5,450,000	5,450,000
Retirements, principal	<u>120,000</u>	<u>300,000</u>	<u>-</u>	<u>420,000</u>
Bonds outstanding, end of current year	<u>\$ 4,915,000</u>	<u>\$ 10,505,000</u>	<u>\$ 5,450,000</u>	<u>\$ 20,870,000</u>
Interest paid during current year	<u>\$ 257,838</u>	<u>\$ 415,481</u>	<u>\$ 0</u>	<u>\$ 673,319</u>

Paying agent's name and address:

**Series 2013** - 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 2018** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 77,225,000	\$ 40,275,000	0
Amount issued	\$ 17,050,000	\$ 5,355,000	0
Remaining to be issued	\$ 60,175,000	\$ 34,920,000	0

Debt service fund cash and temporary investment balances as of March 31, 2019: \$ 3,242,541

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,526,286

**Galveston County Municipal Utility District No. 54**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended March 31,**

	Amounts				
	2019	2018	2017	2016	2015
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 415,023	\$ 359,467	\$ 371,548	\$ 324,995	\$ 275,277
Investment income	12,035	5,809	1,394	1,272	775
Total revenues	<u>427,058</u>	<u>365,276</u>	<u>372,942</u>	<u>326,267</u>	<u>276,052</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	-	24	607	4,899	-
Professional fees	134,397	83,227	86,841	118,907	115,147
Contracted services	21,399	21,038	21,000	21,001	22,125
Utilities	5,527	4,090	8,476	6,311	3,728
Repairs and maintenance	162,254	114,622	88,539	72,680	16,948
Other expenditures	27,612	15,836	18,561	18,875	20,481
Interest and fees	-	-	-	-	4,632
Capital outlay	-	40,200	40,200	41,226	-
Total expenditures	<u>351,189</u>	<u>279,037</u>	<u>264,224</u>	<u>283,899</u>	<u>183,061</u>
<b>Excess of Revenues Over Expenditures</b>	<u>75,869</u>	<u>86,239</u>	<u>108,718</u>	<u>42,368</u>	<u>92,991</u>
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in (out)	42,621	36,850	40,217	37,476	(25,700)
Repayment of developer	-	-	-	-	(110,000)
Total other financing sources (uses)	<u>42,621</u>	<u>36,850</u>	<u>40,217</u>	<u>37,476</u>	<u>(135,700)</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	118,490	123,089	148,935	79,844	(42,709)
<b>Fund Balance (Deficit), Beginning of Year</b>	<u>946,884</u>	<u>823,795</u>	<u>674,860</u>	<u>595,016</u>	<u>637,725</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,065,374</u>	<u>\$ 946,884</u>	<u>\$ 823,795</u>	<u>\$ 674,860</u>	<u>\$ 595,016</u>
<b>Total Active Retail Water Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Active Retail Wastewater Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
97.2 %	98.4 %	99.6 %	99.6 %	99.7 %
2.8	1.6	0.4	0.4	0.3
100.0	100.0	100.0	100.0	100.0
-	0.0	0.1	1.5	-
31.5	22.8	23.3	36.5	41.7
5.0	5.8	5.6	6.4	8.0
1.3	1.1	2.3	1.9	1.4
37.9	31.4	23.7	22.3	6.1
6.5	4.3	5.0	5.8	7.4
-	-	-	-	1.7
-	11.0	10.8	12.6	-
82.2	76.4	70.8	87.0	66.3
17.8 %	23.6 %	29.2 %	13.0 %	33.7 %

**Galveston County Municipal Utility District No. 54**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended March 31,**

	Amounts				
	2019	2018	2017	2016	2015
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 358,177	\$ 387,331	\$ 434,309	\$ 406,322	\$ 395,485
TIRZ tax rebate	1,564,965	1,462,463	1,247,777	1,178,225	1,109,152
Penalty and interest	1,959	1,399	3,221	789	1,843
Investment income	48,990	24,031	4,725	3,951	2,231
Total revenues	<u>1,974,091</u>	<u>1,875,224</u>	<u>1,690,032</u>	<u>1,589,287</u>	<u>1,508,711</u>
<b>Expenditures</b>					
Current:					
Professional fees	822	1,305	450	220	849
Contracted services	10,145	9,991	9,436	9,679	6,540
Other expenditures	3,768	3,675	3,184	2,688	3,454
Debt service:					
Principal retirement	420,000	395,000	370,000	350,000	-
Interest and fees	673,319	683,231	692,469	701,219	395,924
Total expenditures	<u>1,108,054</u>	<u>1,093,202</u>	<u>1,075,539</u>	<u>1,063,806</u>	<u>406,767</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>866,037</u>	<u>782,022</u>	<u>614,493</u>	<u>525,481</u>	<u>1,101,944</u>
<b>Other Financing Sources (Uses)</b>					
Interfund transfers in (out)	(54,993)	(36,850)	(40,200)	(155,482)	25,700
Repayment of developer	-	(1,180,539)	-	-	(270,601)
General obligation bonds issued	-	-	-	-	431,381
Total other financing sources (uses)	<u>(54,993)</u>	<u>(1,217,389)</u>	<u>(40,200)</u>	<u>(155,482)</u>	<u>186,480</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>811,044</u>	<u>(435,367)</u>	<u>574,293</u>	<u>369,999</u>	<u>1,288,424</u>
<b>Fund Balance, Beginning of Year</b>	<u>2,336,827</u>	<u>2,772,194</u>	<u>2,197,901</u>	<u>1,827,902</u>	<u>539,478</u>
<b>Fund Balance, End of Year</b>	<u>\$ 3,147,871</u>	<u>\$ 2,336,827</u>	<u>\$ 2,772,194</u>	<u>\$ 2,197,901</u>	<u>1,827,902</u>

**Percent of Fund Total Revenues**

<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
18.1 %	20.6 %	25.7 %	25.6 %	26.2 %
79.3	78.0	73.8	74.1	73.5
0.1	0.1	0.2	0.1	0.1
2.5	1.3	0.3	0.2	0.2
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.0	0.1	0.0	0.0	0.1
0.5	0.5	0.5	0.6	0.4
0.2	0.2	0.2	0.2	0.2
21.3	21.1	21.9	22.0	-
<u>34.1</u>	<u>36.4</u>	<u>41.0</u>	<u>44.1</u>	<u>26.2</u>
<u>56.1</u>	<u>58.3</u>	<u>63.6</u>	<u>66.9</u>	<u>26.9</u>
<u><u>43.9 %</u></u>	<u><u>41.7 %</u></u>	<u><u>36.4 %</u></u>	<u><u>33.1 %</u></u>	<u><u>73.1 %</u></u>

**Galveston County Municipal Utility District No. 54**  
**Board Members, Key Personnel and Consultants**  
**Year Ended March 31, 2019**

Complete District mailing address:	Galveston County Municipal Utility District No. 54 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	November 14, 2018
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
Richard Harsch	Elected 05/18- 05/22	\$ 3,300	\$ 2,278	President
Mary Edmiston	Elected 05/18- 05/22	1,800	199	Vice President
Jolie Lenz	Elected 05/18- 05/22	1,050	154	Secretary
Stephan Selinidis	Elected 05/16- 05/20	450	28	Assistant Vice President
Matthew A. Malario	Appointed 11/18- 05/20	750	0	Assistant Secretary
Shirley McLemnan	Elected 05/16- 05/18	0	0	Resigned

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

**Galveston County Municipal Utility District No. 54**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended March 31, 2019**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Allen Boone Humphries Robinson LLP	03/05/07	\$ 248,959	Attorney
Assessments of the Southwest, Inc.	04/02/07	5,598	Tax Assessor/ Collector
BGE, Inc.	04/02/07	91,997	Engineer
BKD, LLP	05/15/12	26,600	Auditor
Galveston Central Appraisal District	Legislative Action	6,545	Appraiser
Hilltop Securities, Inc.	04/02/07	0	Former Financial Advisor
Masterson Advisors, LLC	05/09/18	113,869	Financial Advisor
Municipal District Services, L.L.C.	09/01/13	9,526	Operator
Myrtle Cruz Inc.	04/02/07	16,429	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	06/17/14	822	Delinquent Tax Attorney
<b>Investment Officer</b>			
Mary Jarmon	08/13/14	N/A	Bookkeeper