

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 7, 2016**

**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, 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 AND CORPORATIONS, EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE NOT BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**NEW ISSUE-Book-Entry-Only**

Rating: Moody's "A3"  
See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" herein.

**\$8,690,000**

**GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 46**  
*(A political subdivision of the State of Texas located within Galveston County)*  
**UNLIMITED TAX BONDS**  
**SERIES 2016A**

The bonds described above (the "Bonds") are obligations solely of Galveston County Municipal Utility District No. 46 (the "District") and are not obligations of the State of Texas, Galveston County, the City of League City 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 taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

Dated Date: November 1, 2016

Due: September 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 is payable each March 1 and September 1, commencing March 1, 2017, until maturity or prior redemption. Interest on the Bonds accrues from November 1, 2016, and will be payable on the basis of a 360 day year of twelve 30 day months. The Bonds will be issued only in fully registered form 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 Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)	Principal Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)
\$ 375,000	2017		%	%	\$ 375,000	2028 (b)		%	%
375,000	2018				415,000	2029 (b)			
375,000	2019				415,000	2030 (b)			
375,000	2020				420,000	2031 (b)			
375,000	2021				420,000	2032 (b)			
375,000	2022				420,000	2033 (b)			
375,000	2023				420,000	2034 (b)			
375,000	2024 (b)				420,000	2035 (b)			
375,000	2025 (b)				420,000	2036 (b)			
375,000	2026 (b)				420,000	2037 (b)			
375,000	2027 (b)				420,000	2038 (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 September 1, 2024, 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 September 1, 2023, 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."
- (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 November 3, 2016.

**Bids Due: Tuesday, October 4, 2016, at 11:00 A.M., Central Daylight Savings Time in Houston, Texas**  
**Bid Award: Tuesday, October 4, 2016, at 1:00 P.M., Central Daylight Savings Time in League City, 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.

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## 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.

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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.

### THE DISTRICT

- Description...* The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”), on October 28, 2004, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 483 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 League City (the “City”) and within the boundaries of the Clear Creek Independent School District. The District is bordered on the east by Texas State Highway 146 and on the north by League City Parkway. Its eastern boundary is approximately one-half mile inland from Galveston Bay. See “AERIAL LOCATION MAP.”
- The Developer...* The Developer of the acreage located within the District is Taylor Woodrow Communities-League City, Ltd., a Texas limited partnership (the “Developer”). The Developer was created for the sole purpose of developing the 483 acres in the District, which is its only substantial asset.
- The general partner of the Developer is Taylor Woodrow Homes Houston (GP) L.L.C., a Texas limited liability company. The Developer is indirectly wholly owned by Taylor Morrison, Inc. Employees of affiliates of Taylor Morrison, Inc. manage the development of the District. All of the financing for development in the District is being provided by Taylor Morrison, Inc. or affiliates of Taylor Morrison, Inc. See “INVESTMENT CONSIDERATIONS—Dependence on Major Taxpayers and the Developer,” “THE DEVELOPER” and “TAX DATA—Principal Taxpayers.”
- Status of Development...* Development of the District began in 2007. The District is being developed as Mar Bella, a single-family residential project. As of August 26, 2016, utilities and paving were complete for 1,253 single-family residential lots on approximately 347 acres, and a total of 1,015 homes were complete and occupied, 30 homes were completed and unoccupied, 48 homes were under construction and 160 single-family residential lots were available for home construction. Homes within the District range in market value from approximately \$180,000 to \$550,000. There are approximately 46 developable acres, consisting of approximately 24 acres owned by the Developer that have not been fully provided with water distribution, wastewater collection, storm drainage and paving facilities, and approximately 22 acres owned by others, of which approximately 16 acres are served by trunkline water distribution, wastewater collection and storm drainage facilities for future development. Approximately 90 acres are non-developable (recreation and street right-of-way). See “THE DISTRICT.”
- In addition to residential development, an amenity center that includes a clubhouse, pool and splash pad has been completed on approximately one acre.
- Homebuilders...* The Developer is building homes in the District under the name Taylor Morrison and has entered into lot sales agreements with Beazer Homes and CastleRock Homes for the sale of 222 lots in the District. See “THE DEVELOPER—Homebuilding.”
- 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 has previously issued \$28,405,000 principal amount of unlimited tax bonds in eight series, \$2,280,000 principal amount of unlimited tax park bonds in one series and \$10,755,000 principal amount of unlimited tax refunding bonds in two series, of which \$28,665,000 principal amount remains outstanding (the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

*Short Term Debt...* The District sold a \$5,065,000 Bond Anticipation Note, Series 2016 (the “2016 BAN”) on June 16, 2016, with a maturity date of June 15, 2017. The District will use proceeds from the Bonds to redeem the BAN prior to maturity. See “THE BONDS—Issuance of Additional Debt,” “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt,” and “INVESTMENT CONSIDERATIONS—Future Debt.”

## THE BONDS

*Description...* \$8,690,000 Unlimited Tax Bonds, Series 2016A (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature as serial bonds on September 1 in the years 2017 through 2038, both inclusive. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from November 1, 2016, and is payable March 1, 2017, each September 1 and March 1 and thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

*Book-Entry-Only...* 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 September 1, 2024, 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 September 1, 2023, 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 redeem the 2016 BAN and to pay for the construction costs and capital recovery fees shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize six (6) months of interest on the Bonds; pay interest on funds advanced by the Developer on behalf of the District; and pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds.

*Authority for Issuance...* The Bonds are the ninth series of bonds issued out of an aggregate of \$86,500,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing water, wastewater and/or storm sewer facilities. The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, an election held in the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “INVESTMENT CONSIDERATIONS—Future Debt” and “THE BONDS—Authority for Issuance” and “—Issuance of Additional Debt.”

*Source of Payment...* Principal of and interest on the Bonds and Outstanding Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of League City, Galveston County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”

*Municipal Bond Rating and  
Municipal Bond Insurance...*

Moody's Investor Services ("Moody's") has assigned a credit rating of "A3" on the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody's will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."

Applications have also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option and expense of the Underwriter. The rating fees of Moody's will be paid by the District; any other rating fees associated with the insurance will be the responsibility of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance" and "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE."

*Not Qualified Tax-Exempt  
Obligations...*

The District has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

*Bond Counsel...*

Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS," and "TAX MATTERS."

*Financial Advisor...*

FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas. See "MANAGEMENT OF THE DISTRICT" and "PREPARATION OF THE OFFICIAL STATEMENT."

*Disclosure Counsel...*

Norton Rose Fulbright US LLP, Houston, Texas.

*Paying Agent/Registrar...*

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds are subject to special investment considerations 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 "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2016 Taxable Assessed Valuation.....	\$304,288,613 (a)
Estimated Taxable Assessed Valuation as of August 1, 2016.....	\$324,322,813 (b)
Gross Direct Debt Outstanding .....	\$37,355,000 (c)
Estimated Overlapping Debt .....	<u>27,147,793 (d)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$64,502,793
Ratios of Gross Direct Debt to:	
2016 Taxable Assessed Valuation.....	12.28%
Estimated Taxable Assessed Valuation as of August 1, 2016.....	11.52%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2016 Taxable Assessed Valuation.....	21.20%
Estimated Taxable Assessed Valuation as of August 1, 2016.....	19.88%
Debt Service Funds Available:	
Debt Service Funds Available as of September 6, 2016 .....	\$752,055
Capitalized Interest (Six Months).....	<u>153,300 (e)</u>
Total Debt Service Funds Available .....	\$905,355
General Operating Fund Balance as of September 6, 2016.....	\$334,840
Capital Projects Fund Balance as of September 6, 2016.....	\$228,536
2016 Debt Service Tax Rate.....	\$0.89
2016 Maintenance Tax Rate.....	<u>0.08</u>
2016 Total Tax Rate.....	\$0.97
Average Annual Debt Service Requirement (2017-2038).....	\$2,416,249 (f)
Maximum Annual Debt Service Requirement (2017).....	\$2,727,952 (f)
Tax Rates Required to Pay Average Annual Debt Service (2017-2038) at a 95% Collection Rate	
Based upon 2016 Taxable Assessed Valuation.....	\$0.84 (g)
Based upon Estimated Taxable Assessed Valuation as of August 1, 2016.....	\$0.79 (g)
Tax Rates Required to Pay Maximum Annual Debt Service (2017) at a 95% Collection Rate	
Based upon 2016 Taxable Assessed Valuation.....	\$0.95 (g)
Based upon Estimated Taxable Assessed Valuation as of August 1, 2016.....	\$0.89 (g)
Status of Development as of August 26, 2016 (h):	
Total Lots Constructed .....	1,253
Occupied Homes Completed .....	1,015
Unoccupied Homes Completed .....	30
Homes Under Construction .....	48
Lots Available for Home Construction .....	160
Estimated Population .....	3,552(i)

- (a) The Galveston Central Appraisal District (the "Appraisal District") has certified \$300,233,263 of taxable value within the District. An additional \$4,055,350 of taxable value, which represents the Appraisal District's opinion of value and is subject to review and adjustment prior to certification, remains uncertified. For purposes of this OFFICIAL STATEMENT, the "2016 Taxable Assessed Valuation" represents the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on August 1, 2016. Increases in value that occur between January 1, 2016 and August 1, 2016 will be assessed for purposes of taxation on January 1, 2017. No tax will be levied on such amount until it is certified in the summer of 2016. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) The District will capitalize six (6) months of interest from Bond proceeds. The amount shown above is estimated at 3.50%. The TCEQ approved a maximum of \$206,388 in capitalized interest. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (g) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence.

## PRELIMINARY OFFICIAL STATEMENT

**\$8,690,000**

**GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 46**  
*(A political subdivision of the State of Texas located within Galveston County)*

### **UNLIMITED TAX BONDS SERIES 2016A**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Galveston County Municipal Utility District No. 46 (the "District") of its \$8,690,000 Unlimited Tax Bonds, Series 2016A (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ") and an election held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Taylor Woodrow Communities-League City, Ltd., a Texas limited partnership (the "Developer") and development activity in the District. 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.

## **THE BONDS**

### **Description**

The Bonds will be dated November 1, 2016, with interest payable each March 1 and September 1, beginning March 1, 2017 (each an "Interest Payment Date"), and will mature on the dates and in the 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.

### **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. in 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 February 15 or August 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 of League City, or any entity other than the District.

## **Funds**

In the Bond Resolution, the Debt Service Fund is confirmed, 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.

Accrued interest on the Bonds and six (6) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of redeeming the 2016 BAN, paying for certain construction costs and capital recovery fees and paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of the entire water, wastewater and storm sewer system will be used as described in the Bond Resolution or ultimately transferred to the 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 September 1, 2024, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on September 1, 2023, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all 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 13, 2006, the voters of the District authorized the issuance of \$86,500,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, wastewater and storm sewer facilities. The Bonds are being issued pursuant to such authorization. See "Issuance of Additional Debt" below.

The TCEQ has authorized the District to sell the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to an Order of 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, as amended, and 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.

## **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$86,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, wastewater and storm sewer facilities. The District has also authorized \$56,000,000 principal amount of unlimited tax refunding bonds to refund or redeem its outstanding debt and \$12,000,000 principal amount of unlimited tax bonds for parks and recreational facilities. After the issuance of the Bonds, \$49,405,000 principal amount of unlimited tax bonds for water, wastewater and storm sewer facilities, \$55,110,000 principal amount of unlimited tax refunding bonds, and \$9,720,000 principal amount of unlimited tax bonds for parks and recreational facilities will remain authorized but unissued. The District expects to issue additional bonds in order to reimburse the Developer for the cost of water, wastewater and storm sewer facilities and park and recreational facilities constructed within the District. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. 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 Board has approved a park plan and, at an election held on May 13, 2006, voters of the District authorized the issuance of \$12,000,000 principal amount of unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities. The District currently has \$9,720,000 principal amount of unlimited tax bonds for parks and recreational facilities authorized but unissued.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, enter into amendments to the existing City of League City Utility Agreement specifying the purposes for which the District may issue bonds, and obtain approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" nor calling such an election at this time.

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. 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 League City**

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

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## 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, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](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.

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

### **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY**

All land in the District is located within the corporate limits of the City of League City (the "City"). The City and the District have entered into the Utility Agreement, effective October 21, 2003, 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 which then operates and maintains such facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. Pursuant to the Utility 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 is required to provide permanent water supply and wastewater treatment for the District. This Capital Recovery Fee may be amended 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.

The District has agreed to extend the System to serve future users as necessary so that ultimately all landowners in the District will be in a position to receive services from the System; however, the District's obligation to extend the System is conditioned upon continued development within the District, the City's performance under the provisions of the Utility Agreement, and satisfaction of certain determinations of economic feasibility by the Board and the TCEQ, and TCEQ approval and the ability of the District to sell bonds.

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## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by LJA Engineering, Inc. 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 FirstSouthwest, a Division of Hilltop Securities Inc. (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 review 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.

### I. CONSTRUCTION COSTS

•	Water, Sanitary Sewer & Storm Drainage to Serve:		
	Mar Bella Isla Vista Drive Extension.....		2,067,495
	Mar Bella, Sections Eleven-B, Thirteen-B, Fifteen-C, and Sixteen-A.....		2,894,296
•	Stormwater Pollution Prevention Plan Management.....		115,572
•	Engineering, Geotechnical and Surveying.....		786,034
•	City of League City Capital Recovery Fees.....		963,414
	<b>Total Construction Costs.....</b>	<b>\$</b>	<b>6,826,811 (a)</b>

### II. NON-CONSTRUCTION COSTS

•	Legal Fees.....	\$	213,800
•	Financial Advisory Fees.....		150,350
•	Capitalized Interest (b).....		206,388
•	Developer Interest.....		712,425
•	Bond Anticipation Note (BAN) Interest (12 months @ 1.10%).....		55,715
•	BAN Issuance Cost.....		127,577
•	Bond Issuance Expenses.....		60,819
•	Underwriter's Discount (Estimated at 3.0%) (b).....		260,700
•	Bond Application Report.....		45,000
•	TCEQ Fee (0.25%).....		21,725
•	Attorney General Fee.....		8,690
	<b>Total Non-Construction Costs.....</b>	<b>\$</b>	<b>1,863,189</b>
	<b>TOTAL BOND ISSUE REQUIREMENT.....</b>	<b>\$</b>	<b>8,690,000</b>

(a) See "FINANCIAL STATEMENT—Short Term Debt."

(b) The TCEQ approved a maximum of \$206,388 of capitalized interest, which represents six (6) months of interest at an estimated interest rate of 4.75% and a maximum Underwriter's discount of 3.0%. Calculations of capitalized interest shown throughout this Preliminary Official Statement are based upon an estimated interest rate of 3.50%.

## **THE DISTRICT**

### **General**

The District is a political subdivision of the State of Texas, created by order of the TCEQ on October 28, 2004. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and 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 of League 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 may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See “THE BONDS—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of League City, within which the District is located, the District is required to observe certain requirements of the City of League City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage and park and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of League 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 of League 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 483 acres of land. 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 League City and within the boundaries of the Clear Creek Independent School District. The District is bordered on the east by Texas State Highway 146 and on the north by League City Parkway approximately three miles east of Interstate Highway 45 and League City Parkway on the south side of League City Parkway. Its eastern boundary is approximately one-half mile inland from Galveston Bay. See “AERIAL LOCATION MAP.”

**Land Use**

The following table has been provided by the Engineer and represents the current and planned land use within the District.

<u>Single Family Residential</u>	Approximate <u>Acres</u>	<u>Lots</u>
Mar Bella:		
Section One.....	11	33
Section Two.....	18	61
Section Three.....	16	75
Section Four.....	14	59
Section Five-Phase I.....	4	5
Section Five-Phase II.....	8	19
Section Six.....	12	40
Section Seven.....	17	89
Section Nine-A.....	9	25
Section Nine-B.....	12	36
Section Nine-C.....	10	23
Section Ten-A.....	11	35
Section Ten-B.....	16	50
Section Ten-C.....	10	39
Section Ten-D.....	11	45
Section Eleven.....	14	48
Section Eleven-B.....	17	61
Section Twelve-A.....	15	60
Section Twelve-B.....	14	69
Section Thirteen-A.....	17	47
Section Thirteen-B.....	22	33
Section Fifteen-A & B.....	22	88
Section Fifteen-C.....	15	58
Section Sixteen-A.....	17	80
Section Sixteen-B & C.....	<u>15</u>	<u>75</u>
Subtotal.....	347	1,253
<u>Recreational and Open Space (a)</u> .....	41	---
<u>Undevelopable (b)</u> .....	49	---
<u>Future Development</u> .....	<u>46</u>	<u>---</u>
Subtotal.....	136	---
Totals.....	483	1,253

- (a) Recreation center, parks and open space, trails, and League City nature reserve.  
(c) Streets, rights-of-way and detention facilities.

## **Status of Development**

Development of the District began in 2007. The District is being developed as Mar Bella, a single-family residential project. As of August 26, 2016, utilities and paving were complete for 1,253 single-family residential lots on approximately 347 acres, and a total of 1,015 homes were complete and occupied, 30 homes were completed and unoccupied, 48 homes were under construction and 160 single-family residential lots were available for home construction. Homes within the District range in market value from approximately \$180,000 to \$550,000. There are approximately 46 developable acres, consisting of approximately 24 acres owned by the Developer, that have not been fully provided with water distribution, wastewater collection, storm drainage and paving facilities, and approximately 22 acres owned by others, of which approximately 16 acres are served by trunkline water distribution, wastewater collection and storm drainage facilities for future development. Approximately 90 acres are non-developable (recreation and street right-of-way). See “THE DEVELOPER—Homebuilding” and “—Major Property Owner.”

The estimated population in the District is 3,552, based upon 3.5 persons per occupied single-family residence.

In addition to residential development, an amenity center that includes a clubhouse, pool and splash pad has been completed on approximately one acre.

## **Future Development**

The District is currently planned as a primarily single-family residential development. Approximately 46 developable acres of land in the District are not yet fully served with water distribution, wastewater collection, storm drainage or paving facilities. While the Developer 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, LJA Engineering, Inc. (the “Engineer”) has stated that under current development plans, the remaining authorized but unissued bonds (\$59,125,000) will be sufficient to finance the construction of water, wastewater, and storm drainage and park facilities to complete the District’s waterworks, sanitary sewer, storm drainage and park system for full development of the District. See “THE SYSTEM,” “INVESTMENT CONSIDERATIONS—Development and Home Construction in the District,” and “—Future Debt.”

## **THE DEVELOPER**

### **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 developers 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 the 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 “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments.”

### **The Developer**

The developer of the acreage located within the District is Taylor Woodrow Communities-League City, Ltd., a Texas limited partnership (the “Developer”). The Developer was created for the sole purpose of developing the 483 acres in the District, which is its only substantial asset.

The general partner of the Developer is Taylor Woodrow Homes Houston (GP) L.L.C., a Texas limited liability company. The Developer is indirectly wholly owned by Taylor Morrison, Inc. Employees of affiliates of Taylor Morrison, Inc. manage the development of the District. Further, all of the financing for development in the District is being provided by Taylor Morrison, Inc. or affiliates of Taylor Morrison, Inc. The Developer’s ability to continue development within the District is dependent on its continued receipt of funds from Taylor Morrison, Inc. or affiliates of Taylor Morrison, Inc.

Taylor Morrison, Inc. is not legally obligated to provide funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to make any payment on the Bonds or other obligations of the District.

Neither the Developer nor Taylor Morrison, Inc. has any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of the Developer and Taylor Morrison, Inc. is subject to change at any time. See “INVESTMENT CONSIDERATIONS—Dependence on Major Taxpayers and the Developer” and “TAX DATA—Principal Taxpayers.”

**Homebuilding**

The Developer is building homes in the District as Taylor Morrison and has entered into lot sales agreements with Beazer Homes and CastleRock Homes for the sale of 222 lots within the District.

**Major Property Owner**

Grason Communities, Ltd. owns approximately 22 acres of land, of which approximately 16 acres are served by trunkline water distribution, wastewater collection, and storm drainage facilities for future development. The District is not aware of any plans to develop such acreage.

**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 resides 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 the Developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	District Board <u>Title</u>	<u>Term Expires</u>
E. “Rusty” Vidrine	President	May 2020
Dennis O’Neal	Vice President	May 2018
Hobart Sibley	Secretary	May 2020
Scipio Spinks	Assistant Secretary	May 2018
Trent Richert	Assistant Vice President	May 2018

**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:*** FirstSouthwest, a Division of Hilltop Securities, Inc. 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.

***Independent Auditor:*** The District’s financial statements for the fiscal year ending June 30, 2015, were prepared by McGrath & Co., PLLC, Certified Public Accountants. The District has engaged McGrath & Co., PLLC to audit its financial statements for the fiscal year ending June 30, 2016. See “APPENDIX A” for a copy of the audited financial statement of the District as of June 30, 2015.



Engineer: The District's consulting engineer is LJA Engineering, Inc.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. for bookkeeping services.

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. Mr. Thomas Lee of 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, sanitary sewer and storm sewer (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, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City of League 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 of League City pursuant to the Utility Agreement. The water supplied by the City of League City is purchased from the Gulf Coast Water Authority, which obtains surface water from the City of Houston Southeast Water Purification Plant and from the City of Dickinson Thomas Mackey Water Purification Plant. Wastewater treatment is currently available from the City of League City's Dallas Salmon Wastewater Treatment Plant.

Pursuant to the Utility 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 is required to provide permanent water supply and wastewater treatment for the District. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY." A portion of the proceeds from the Bonds will be expended for payment of such Capital Recovery Fees.

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.

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

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve 1,253 lots on approximately 347 acres. See "THE DISTRICT—Land Use."

### **Ownership and Operations**

The District (or the Developer on behalf of the District) finances and constructs the System, and thereafter conveys the components of the System to League City upon completion, subject to the District's capacity rights and the Developer's reimbursement rights pursuant to the Utility Agreement. The System is owned, maintained, and operated by the City of League City. The City of League 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 "TAX DATA—Historical Tax Rate."

### **100-Year Flood Plain**

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.

**FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)**

2016 Taxable Assessed Valuation.....	\$304,288,613	(a)
Estimated Taxable Assessed Valuation as of August 1, 2016.....	\$324,322,813	(b)
Gross Direct Debt Outstanding .....	\$37,355,000	(c)
Estimated Overlapping Debt .....	<u>27,147,793</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$64,502,793	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation.....	12.28%	
Estimated Taxable Assessed Valuation as of August 1, 2016.....	11.52%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation.....	21.20%	
Estimated Taxable Assessed Valuation as of August 1, 2016.....	19.88%	
Debt Service Funds Available:		
Debt Service Funds Available as of September 6, 2016 .....	\$752,055	
Capitalized Interest (Six Months).....	<u>153,300</u>	(e)
Total Debt Service Funds Available .....	\$905,355	
General Operating Fund Balance as of September 6, 2016.....	\$334,840	
Capital Projects Fund Balance as of September 6, 2016.....	\$228,536	

- (a) The Galveston Central Appraisal District (the "Appraisal District") has certified \$300,233,263 of taxable value within the District. An additional \$4,055,350 of taxable value, which represents the Appraisal District's opinion of value and is subject to review and adjustment prior to certification, remains uncertified. For purposes of this OFFICIAL STATEMENT, the "2016 Taxable Assessed Valuation" represents the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on August 1, 2016. Increases in value that occur between January 1, 2016 and August 1, 2016 will be assessed for purposes of taxation on January 1, 2017. No tax will be levied on such amount until it is certified in the summer of 2016. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) The District will capitalize six (6) months of interest from Bond proceeds. The amount shown above is estimated at 3.50%. The TCEQ approved a maximum of \$206,388 in capitalized interest. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

**Short Term Debt**

The District sold a \$5,065,000 Bond Anticipation Note, Series 2016 (the "2016 BAN") on June 16, 2016, with a maturity date of June 15, 2017. The District will use Bond proceeds to redeem the 2016 BAN prior to maturity

**Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, 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 eight series of unlimited tax bonds, two series of refunding unlimited tax bonds, and one series of unlimited tax park bonds. The following table lists the original principal amount of the Outstanding Bonds and the principal amount of the Outstanding Bonds.

<u>Series</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds As of 9/2/2016</u>
2009	\$ 4,120,000	\$ -
2010	2,100,000	110,000
2010A	3,000,000	475,000
2011	4,120,000	1,385,000
2012	3,900,000	3,300,000
2013	2,175,000	2,025,000
2014	4,810,000	4,610,000
2014 (a)	4,335,000	4,160,000
2015	4,200,000	4,000,000
2015A (b)	2,280,000	2,180,000
2016 (a)	6,420,000	6,420,000
Total	\$ 41,460,000	\$ 28,665,000

- (a) Unlimited tax refunding bonds.  
(b) Unlimited tax park bonds.

**District Operations**

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

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## General Operating Fund

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Outstanding Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements from June 30, 2012, through the fiscal year ending June 30, 2015, and an unaudited summary prepared by the District's Bookkeeper as of June 30, 2016. 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.

	Fiscal Year End June 30									
	2016	(a)	2015	2014	2013	2012				
<b>Revenues:</b>										
Property Taxes	\$	220,490	\$	232,788	\$	219,090	\$	236,598	\$	227,431
Investment Revenue		948		714		799		740		546
Total Revenue	\$	221,438	\$	233,502	\$	219,889	\$	237,338	\$	227,977
<b>Expenditures:</b>										
Professional Fees	\$	120,706	\$	103,295	\$	119,004	\$	82,679	\$	71,811
Contracted Services		15,350		11,400		12,650		10,213		11,163
Repairs and Maintenance		52,104		93,638		55,149		51,596		53,113
Administrative		33,208		25,144		31,768		33,439		19,326
Other		16,895		903		-		199		135
Capital Outlay		50,873		-		-		-		51,789
Total Expenditures	\$	289,136	\$	234,380	\$	218,571	\$	178,126	\$	207,337
NET REVENUES	\$	(67,699)	\$	(878)	\$	1,318	\$	59,212	\$	20,640
Other Financing Sources			\$	38,808	\$	-	\$	-	\$	-
<b>General Operating Fund</b>										
Balance (Beginning of Year)	\$	413,214	\$	375,284	\$	373,966	\$	314,754	\$	294,114
<b>General Operating Fund</b>										
Balance (End of Year)	\$	345,515	\$	413,214	\$	375,284	\$	373,966	\$	314,754

(a) Unaudited. Provided by the District's Bookkeeper.

## Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and estimated debt service on the Bonds at an estimated interest rate per annum of 3.50%. This schedule does not reflect the fact that an amount equal to six (6) months of interest will be capitalized from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Debt Service Requirements
		Principal	Interest	Total	
2017	\$ 2,099,493.33	\$ 375,000	\$ 253,458.33	\$ 628,458.33	\$ 2,727,951.67
2018	2,051,785.00	375,000	291,025.00	666,025.00	2,717,810.00
2019	2,049,247.50	375,000	277,900.00	652,900.00	2,702,147.50
2020	2,041,122.50	375,000	264,775.00	639,775.00	2,680,897.50
2021	2,034,547.50	375,000	251,650.00	626,650.00	2,661,197.50
2022	2,040,900.00	375,000	238,525.00	613,525.00	2,654,425.00
2023	2,028,600.00	375,000	225,400.00	600,400.00	2,629,000.00
2024	2,011,650.00	375,000	212,275.00	587,275.00	2,598,925.00
2025	1,993,562.50	375,000	199,150.00	574,150.00	2,567,712.50
2026	1,983,918.75	375,000	186,025.00	561,025.00	2,544,943.75
2027	1,967,750.00	375,000	172,900.00	547,900.00	2,515,650.00
2028	1,955,950.00	375,000	159,775.00	534,775.00	2,490,725.00
2029	1,932,537.50	415,000	146,650.00	561,650.00	2,494,187.50
2030	1,912,325.00	415,000	132,125.00	547,125.00	2,459,450.00
2031	1,895,212.50	420,000	117,600.00	537,600.00	2,432,812.50
2032	1,866,131.25	420,000	102,900.00	522,900.00	2,389,031.25
2033	1,875,068.75	420,000	88,200.00	508,200.00	2,383,268.75
2034	1,851,643.75	420,000	73,500.00	493,500.00	2,345,143.75
2035	1,831,493.75	420,000	58,800.00	478,800.00	2,310,293.75
2036	1,408,506.25	420,000	44,100.00	464,100.00	1,872,606.25
2037	1,219,325.00	420,000	29,400.00	449,400.00	1,668,725.00
2038	875,875.00	420,000	14,700.00	434,700.00	1,310,575.00
Total	\$ 40,926,645.83	\$ 8,690,000	\$ 3,540,833.33	\$ 12,230,833.33	\$ 53,157,479.17

Average Annual Debt Service Requirements (2017-2038) ..... \$2,416,249  
Maximum Annual Debt Service Requirement (2017) ..... \$2,727,952

**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 .....	\$238,628,434	07/31/16	1.32%	\$ 3,149,895
City of League City .....	203,445,000	07/31/16	4.81%	9,785,705
Clear Creek Independent School District .....	861,345,000	07/31/16	1.65%	<u>14,212,193</u>
Total Estimated Overlapping Debt .....				\$27,147,793
The District's Total Direct Debt .....				<u>37,355,000</u>
Total Direct and Estimated Overlapping Debt .....				\$64,502,793

Direct and Estimated Overlapping Debt as a Percentage of:

2016 Taxable Assessed Valuation of \$304,288,613 .....	21.20%
Estimated Taxable Assessed Valuation as of August 1, 2016 of \$324,322,813 .....	19.88%

**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 2015 tax year by all overlapping taxing jurisdictions and the 2016 tax rate for 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 Assessed Valuation</u>
Galveston County (including Road and Flood).....	\$ 0.451901
Clear Creek Independent School District .....	1.400000
City of League City .....	<u>0.597000</u>
Total Overlapping Tax Rate .....	\$ 2.448901
District Tax Rate .....	<u>0.970000 (a)</u>
Total Tax Rate .....	\$ 3.418901

(a) Reflects the District's 2016 tax rate. See "TAX DATA—Historical Tax Rate Distribution."

## 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 or the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments.”

### 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 13, 2006, 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 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 Distribution

	2016	2015	2014	2013	2012
Debt Service Tax	\$0.89	\$0.89	\$0.87	\$0.85	\$0.81
Maintenance Tax	0.08	0.09	0.13	0.15	0.19
Total	\$0.97	\$0.98	\$1.00	\$1.00	\$1.00

### 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.

	Net Certified Taxable		Tax Rate	Total Tax Levy (b)	Total Collections As of 8/31/16 (c)	
	Valuation (a)				Amount	Percent
2011	\$ 102,705,268	\$	1.00	\$ 1,027,053	\$ 1,027,053	100.00%
2012	124,547,454		1.00	1,245,475	1,245,475	100.00%
2013	146,292,690		1.00	1,462,927	1,462,927	100.00%
2014	179,929,537		1.00	1,799,295	1,796,426	99.84%
2015	244,114,970		0.98	2,392,327	2,391,792	99.98%
2016	304,288,532		0.97	2,951,599	(d)	(d)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Represents unaudited collections as of August 31, 2016.
- (d) In the process of collection. Taxes for 2016 are due on January 31, 2017.

**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 2012 through 2016 Taxable Assessed Valuations. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Breakdowns of the uncertified portion (\$4,055,350) of the 2016 Taxable Assessed Value of \$304,288,613 or the Estimated Taxable Assessed Valuation as of August 1, 2016, of \$324,322,813 are subject to review and significant revision and not included herein.

	2012 Taxable Assessed Valuation	2013 Taxable Assessed Valuation	2014 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2016 Taxable Assessed Valuation
Land	\$ 34,937,020	\$ 38,887,460	\$ 46,362,460	\$ 56,880,930	\$ 69,343,609
Improvements	90,370,260	108,724,034	135,570,778	194,932,527	235,821,090
Personal Property	401,482	436,914	599,374	818,003	825,620
Exemptions	(1,161,308)	(1,755,718)	(2,603,075)	(8,516,490)	(5,757,137)
Uncertified	-	-	-	-	4,055,350
Total	\$ 124,547,454	\$ 146,292,690	\$ 179,929,537	\$ 244,114,970	\$ 304,288,532

**Principal Taxpayers**

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property’s taxable assessed valuation as a percentage of the certified portion (\$300,233,182) of the 2016 Taxable Assessed Valuation of \$304,288,613, which represents ownership as of January 1, 2016. Principal taxpayer lists related to the uncertified portion (\$4,055,350) of the 2016 Taxable Assessed Value of \$304,288,613 or the Estimated Taxable Assessed Valuation as of August 1, 2016, of \$324,322,813 are not available.

Taxpayer	2016 Certified Taxable Assessed Value	% of the 2016 Certified Taxable Assessed Value
Taylor Woodrow Communities (a) (b)	\$12,850,670	4.28%
Beazer Homes of Texas LP (b)	2,668,310	0.89%
Grason Communities Ltd.	716,000	0.24%
Castlerock Communities LP (b)	589,140	0.20%
Individual	569,525	0.19%
Individual	552,150	0.18%
Individual	549,570	0.18%
Individual	539,814	0.18%
Individual	539,350	0.18%
Individual	534,570	0.18%
	<u>\$20,109,099</u>	<u>6.70%</u>

(a) See “THE DEVELOPER.”

(b) See “THE DEVELOPER—Homebuilding.”



**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2016 Taxable Assessed Valuation of \$304,288,613, or the Estimated Taxable Assessed Valuation as of August 1, 2016, of \$324,322,813. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2017-2038) .....	\$2,416,249
\$0.84 Tax Rate on 2016 Taxable Assessed Valuation .....	\$2,428,223
\$0.79 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2016 .....	\$2,434,043
Maximum Annual Debt Service Requirement (2017).....	\$2,727,952
\$0.95 Tax Rate on 2016 Taxable Assessed Valuation .....	\$2,746,205
\$0.89 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2016 .....	\$2,742,149

No representation or suggestion is made that the uncertified portion (\$4,055,350) of the 2016 Taxable Assessed Valuation will not be adjusted downward or that the estimated value of land and improvements provided by the Appraisal District as of August 1, 2016, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

**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 “INVESTMENT CONSIDERATIONS—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 and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

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

The Texas Property 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 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 by April 30. See "TAX DATA."

***Freeport Goods and Goods-in-Transit Exemptions:*** 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, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the 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 and taxes for the previous five (5) years for 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.

### **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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The 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, 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 a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

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

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.

## **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 "INVESTMENT CONSIDERATIONS—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.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of League City, Galveston County, the State of Texas, 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 and Bankruptcy Limitations" below.

## **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots which are currently being marketed by the Developer for sale to either home purchasers or homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, unemployment rate, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. An economic slowdown generally, or any downturn in economic conditions, on a national or local basis, could restrain the growth of or even erode the District's tax base.

## **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 Houston and the nation could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District's property tax base.

## **Competition**

The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in City of League City and the City of Houston, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of houses and developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that additional building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

## **Hurricanes**

The District is located approximately one-half mile from Galveston Bay. Land located in this area could be susceptible to storm surge caused by a hurricane. Hurricanes can cause increased flooding, particularly in coastal areas such as the area where the District is located. Hurricanes can also cause windstorm and other damage, and hurricane induced flooding can submerge roadways connecting coastal areas such as the District with inland areas, thus preventing evacuations of persons or property. If a hurricane (or any other natural disaster) destroyed all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or increase in the tax rate. Further, there can be no assurance that a casualty loss will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), 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 would be adversely affected. The Gulf Coast region in which the District is located is subject to occasional destructive weather. There can be no assurance the District will not endure damage from future meteorological events.

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

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Taxable Assessed Valuation is \$304,288,613. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,727,952 (2017), and the average annual debt service requirement will be \$2,416,249 (2017-2038 inclusive). Assuming no increase or decrease from the 2016 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.95 and \$0.84 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 requirements, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements." The Estimated Taxable Assessed Valuation as of August 1, 2016 is \$324,322,813, which reduces the above calculations to \$0.89 and \$0.79, respectively.

No representation or suggestion is made that the uncertified portion (\$4,055,350) of the 2016 Taxable Assessed Valuation will not be adjusted downward or that the estimated value of land and improvements provided by the Appraisal District as of August 1, 2016, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.” 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. Property within the District also is subject to taxes levied by other political subdivisions. See “TAX DATA—Tax Adequacy for Debt Service.”

### **Dependence on Major Taxpayers and the Developer**

The Developer represents \$12,850,670 or 4.28% of the certified portion of the 2016 Taxable Assessed Valuation, which represents ownership as of January 1, 2016. If the Developer or other principal taxpayers were to default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds would be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See “Tax Collection Limitations and Foreclosure Remedies” in this section, “TAX DATA—Principal Taxpayers,” and “TAXING PROCEDURES—Levy and Collection of Taxes.”

The Developer has informed the Board that its current plan is to continue building houses and/or marketing the remaining developed lots in the District to home builders. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See “THE DEVELOPER.”

### **Undeveloped Acreage**

There are approximately 46 developable acres of land within the District that have not been fully provided with waterworks, sanitary sewer, and storm drainage facilities. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT—Land Use.”

### **Development and Home Construction in the District**

As of August 26, 2016, approximately 160 developed lots owned by the Developer, Beazer Homes and CastleRock Homes remained vacant. Future increases in value will result primarily from the construction of homes by builders.

### **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 Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission 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.

## **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 reimbursement with proceeds from the Bonds, the District will continue to owe the Developer approximately \$7,600,000 plus interest for water, sewer and drainage facilities, water and wastewater capacity and parks and recreational facilities, which includes approximately \$2,200,000 for parks and recreational facilities. The District expects to issue additional bonds in order to reimburse the Developer for its outstanding obligations and for the cost of additional water, wastewater and storm sewer facilities, including water and wastewater distribution and collection lines, capacity fees and parks and recreational facilities to be constructed within the undeveloped portion of the District. The District's voters have authorized the issuance of \$86,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, wastewater and storm sewer facilities. The District voters have also authorized \$56,000,000 principal amount of unlimited tax refunding bonds to refund or redeem outstanding debt and \$12,000,000 principal amount of unlimited tax bonds for parks and recreational facilities. After the issuance of the Bonds, \$49,405,000 principal amount of unlimited tax bonds for a water, wastewater and storm sewer facilities, \$55,110,000 principal amount of unlimited tax refunding bonds, and \$9,720,000 principal amount of unlimited tax bonds for parks and recreational facilities will remain authorized but unissued. In addition, voters in the District 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. However, the principal amount of bonds issued to finance parks may not exceed 1% of the District's certified value. The issuance of additional bonds for water, sewer and drainage facilities and parks 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."

### **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 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/Greenhouse Gas 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 area ("HGB area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. The EPA granted the governor's request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area's new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion ("ppb") to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress is reducing ozone concentration.

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

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency'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.

On May 27, 2015, the EPA and the United States Army Corps of Engineers ("USACE") jointly issued a final version of the Clean Water Rule ("CWR"), which expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit ("Sixth Circuit") put the CWR on hold nationwide. On February 22, 2016, the Sixth Circuit decided it has jurisdiction to consider lawsuits against the CWR, and on April 21, 2016, denied six petitions for en banc review of this decision. The CWR is also under review by several other appellate and state courts. If the CWR is implemented, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the "waters of the United States." The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.



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) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and 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 must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain 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 renewed by the TCEQ on December 11, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit contains more stringent requirements than the standards contained in the previous MS4 Permit. In order to maintain MS4 Permit compliance, the District is partnering with the City of League City (the “City”), to participate in the City’s program to develop and implement 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.

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

### **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.

### **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.”

### **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 tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE**

Moody's Investor Services ("Moody's") has assigned a credit rating of "A3" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The rating fee of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

Applications have also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option and expense of the Underwriter. The rating fee of Moody's will be paid for by the District; payment of any other rating fee will be the responsibility of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody's, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **LEGAL MATTERS**

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "THE BONDS," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY," "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 Developer 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, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except for certain alternative tax consequences for corporations.

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

Bond Counsel’s opinion will assume continuing compliance with the covenants of the 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 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.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC, or FASIT), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax exempt obligations, such as the Bonds, is included in a corporation’s “adjusted current earnings,” ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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.

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

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

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

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

## **Not Qualified Tax-Exempt Obligations**

The Bonds have not been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code.

## 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 Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and information 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

FirstSouthwest, a Division of Hilltop Securities Inc. 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, FirstSouthwest, a Division of Hilltop Securities Inc. 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 Mr. Thomas Lee of Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such individual 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 LJA Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The District's financial statements for the fiscal year ending June 30, 2015, were prepared by McGrath & Co., PLLC, Certified Public Accountants. The District has engaged McGrath & Co., PLLC to audit its financial statements for the fiscal year ending June 30, 2016. See "APPENDIX A" for a copy of the audited financial statement of the District as of June 30, 2015.

*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 official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his 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 made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (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 (Financial Statements of the District 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 2016. Any financial statements provided by the District provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit becomes available.

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

### **Specified Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. 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.

**Limitations and Amendments**

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

The District may amend its continuing disclosure agreement from time to time to adapt 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 LOCATION MAP**

**(Approximate boundaries as of August 2016)**





GALVESTON BAY

STATE HWY. 146

GALVESTON COUNTY  
MUNICIPAL UTILITY  
DISTRICT No. 46

LEAGUE CITY PKWY

STATE HWY. 96





**PHOTOGRAPHS OF THE DISTRICT**

**(Taken August 2016)**

























## **APPENDIX A**

The information contained in this appendix includes the Annual Audit Report of Galveston County Municipal Utility District No. 46 for the fiscal year ended June 30, 2015.

**GALVESTON COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 46**

**GALVESTON COUNTY, TEXAS**

**FINANCIAL REPORT**

**June 30, 2015**



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# McGrath & Co., PLLC

Certified Public Accountants

P.O. Box 270148  
Houston, Texas 77277

Mark W. McGrath CPA  
mark@mcgrath-co.com

Colette M. Garcia CPA  
colette@mcgrath-co.com

## Independent Auditors' Report

Board of Directors  
Galveston County Municipal Utility District No. 46  
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. 46, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

***Board of Directors  
Galveston County Municipal Utility District No. 46  
Galveston County, Texas***

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Galveston County Municipal Utility District No. 46, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other-Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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.

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



Houston, Texas  
October 6, 2015

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



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***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

**Using this Annual Report**

Within this section of the financial report of Galveston County Municipal Utility District No. 46 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

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

**Fund Financial Statements**

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

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

**Financial Analysis of the District as a Whole**

The District's net position at June 30, 2015, was negative \$21,024,892. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of League City. A comparative summary of the District's overall financial position, as of June 30, 2015 and 2014, is as follows:

	2015	2014
Current and other assets	\$ 2,870,141	\$ 1,795,758
Capital assets	11,748,359	10,569,418
Total assets	<u>14,618,500</u>	<u>12,365,176</u>
 Total deferred outflows of resources	 <u>571,844</u>	 <u></u>
 Current liabilities	 1,098,926	 815,795
Long-term liabilities	35,116,310	26,521,576
Total liabilities	<u>36,215,236</u>	<u>27,337,371</u>
 Net position		
Net investment in capital assets	(2,602,839)	(2,710,631)
Restricted	1,462,558	1,061,722
Unrestricted	(19,884,611)	(13,323,286)
Total net position	<u>\$ (21,024,892)</u>	<u>\$ (14,972,195)</u>

***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

The total net position of the District decreased by \$6,052,697. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2015</u>	<u>2014</u>
Revenues		
Property taxes, penalties and interest	\$ 1,809,765	\$ 1,470,364
Other	4,297	4,184
Total revenues	<u>1,814,062</u>	<u>1,474,548</u>
Expenses		
Operating and administrative	284,230	258,302
Interest and fees	1,309,690	1,100,128
Debt issuance costs	378,191	122,791
Depreciation and amortization	274,188	180,184
Total expenses	<u>2,246,299</u>	<u>1,661,405</u>
Change in net position before other item	(432,237)	(186,857)
Other item		
Transfers to other governments	<u>(5,620,460)</u>	<u>(1,204,105)</u>
Change in net position	(6,052,697)	(1,390,962)
Net position, beginning of year	<u>(14,972,195)</u>	<u>(13,581,233)</u>
Net position, end of year	<u>\$ (21,024,892)</u>	<u>\$ (14,972,195)</u>

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

The District's combined fund balances, as of June 30, 2015, were \$2,672,539, which consists of \$413,214 in the General Fund, \$1,779,290 in the Debt Service Fund and \$480,035 in the Capital Projects Fund.

*General Fund*

Comparative summaries of the General Fund's financial position as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Total assets	<u>\$ 439,060</u>	<u>\$ 409,719</u>
Total liabilities	\$ 23,397	\$ 33,501
Total deferred inflows	2,449	934
Total fund balance	413,214	375,284
Total liabilities, deferred inflows and fund balance	<u>\$ 439,060</u>	<u>\$ 409,719</u>

***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

Comparative summaries of the General Fund's activities for the current and prior fiscal year are as follows:

	<u>2015</u>	<u>2014</u>
Total revenues	\$ 233,502	\$ 219,889
Total expenditures	(234,380)	(218,571)
Revenues over/(under) expenditures	(878)	1,318
Other changes in fund balance	38,808	
Net change in fund balance	<u>\$ 37,930</u>	<u>\$ 1,318</u>

The District manages its activities with the objective of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. As a result, fund balance in the current year and prior year has increased.

*Debt Service Fund*

Comparative summaries of the Debt Service Fund's financial position as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Total assets	<u>\$ 1,798,204</u>	<u>\$ 1,363,582</u>
Total liabilities	\$ -	\$ 64
Total deferred inflows	18,914	5,292
Total fund balance	1,779,290	1,358,226
Total liabilities, deferred inflows and fund balance	<u>\$ 1,798,204</u>	<u>\$ 1,363,582</u>

Comparative summaries of the Debt Service Fund activities for the current and prior fiscal year are as follows:

	<u>2015</u>	<u>2014</u>
Total revenues	\$ 1,573,755	\$ 1,255,512
Total expenditures	(1,430,475)	(1,316,189)
Revenues over/(under) expenditures	143,280	(60,677)
Other changes in fund balance	277,784	91,500
Net change in fund balance	<u>\$ 421,064</u>	<u>\$ 30,823</u>

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

***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

During the current year, the District issued \$4,335,000 in refunding bonds to refund \$3,610,000 of its outstanding Series 2009 bonds. This refunding will save the District \$1,284,917 in future debt service requirements.

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund's financial position as of June 30, 2015 and 2014 is as follows:

	2015	2014
Total assets	<u>\$ 614,918</u>	<u>\$ 22,457</u>
Total liabilities	\$ 134,883	\$ 434
Total fund balance	480,035	22,023
Total liabilities and fund balance	<u>\$ 614,918</u>	<u>\$ 22,457</u>

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

	2015	2014
Total revenues	\$ 508	\$ 841
Total expenditures	<u>(4,073,144)</u>	<u>(2,664,611)</u>
Revenues under expenditures	(4,072,636)	(2,663,770)
Other changes in fund balance	4,530,648	2,022,382
Net change in fund balance	<u>\$ 458,012</u>	<u>\$ (641,388)</u>

The District has had considerable capital asset activity in the last two years, which includes the sale of bonds in the current year and prior year.

**General Fund Budgetary Highlights**

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$239 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

***Galveston County Municipal Utility District No. 46  
Management's Discussion and Analysis  
June 30, 2015***

**Capital Assets**

Capital assets held by the District at June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 6,663,640</u>	<u>\$ 6,269,027</u>
Capital assets being depreciated/amortized		
Landscaping improvements	3,232,481	2,737,116
Capital recovery fees	<u>2,526,631</u>	<u>1,963,480</u>
	<u>5,759,112</u>	<u>4,700,596</u>
Less accumulated depreciation/amortization		
Landscaping improvements	(408,089)	(217,618)
Capital recovery fees	<u>(266,304)</u>	<u>(182,587)</u>
	<u>(674,393)</u>	<u>(400,205)</u>
Depreciable capital assets, net	<u>5,084,719</u>	<u>4,300,391</u>
Capital assets, net	<u>\$ 11,748,359</u>	<u>\$ 10,569,418</u>

During the year, the District completed landscaping and irrigation improvements for Mar Bella 10-C and Mar Bella 13-A.

The District and the City of League City (the "City") have entered into an agreement which obligates the District to construct water, wastewater and storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. For the year ended June 30, 2015, capital assets in the amount of \$5,620,460 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

As discussed in Note 6, the District has contractual commitments in the amount of \$1,767,623 for construction of water, sewer and drainage facilities and landscaping improvements. The District will owe its developers for these projects upon completion of construction.

**Galveston County Municipal Utility District No. 46**  
**Management's Discussion and Analysis**  
**June 30, 2015**

**Long-Term Debt**

At June 30, 2015 and 2014, the District had total bonded debt outstanding as shown below:

Series	2015	2014
2009	\$ 165,000	\$ 3,850,000
2010	1,935,000	1,980,000
2010A	2,795,000	2,865,000
2011	3,945,000	4,035,000
2012	3,600,000	3,750,000
2013	2,125,000	2,175,000
2014 Refunding	4,335,000	
2014	4,810,000	
	\$ 23,710,000	\$ 18,655,000

During the year, the District issued \$4,335,000 in unlimited tax refunding bonds and \$4,810,000 in unlimited tax bonds for the construction of water, sewer and drainage facilities. At June 30, 2015, the District had \$62,295,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$12,000,000 for parks and recreational facilities and \$55,275,000 for refunding purposes.

**Next Year's Budget**

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

	2015 Actual	2016 Budget
Total revenues	\$ 233,502	\$ 312,775
Total expenditures	(234,380)	(185,050)
Revenues over/(under) expenditures	(878)	127,725
Other changes in fund balance	38,808	
Net change in fund balance	37,930	127,725
Beginning fund balance	375,284	413,214
Ending fund balance	\$ 413,214	\$ 540,939

**Property Taxes**

The District's property tax base increased approximately \$51,543,000 for the 2015 tax year from \$180,239,462 to \$231,782,011. This increase was primarily due to new construction in the District and increased property values.



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## **Basic Financial Statements**

**Galveston County Municipal Utility District No. 46**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**June 30, 2015**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 304,231	\$ 528,909	\$ 614,849	\$ 1,447,989	\$ -	\$ 1,447,989
Investments	126,132	1,249,091		1,375,223		1,375,223
Taxes receivable	2,449	18,914		21,363		21,363
Internal balances	2,768	(2,768)				
Other receivables	136	4,058	69	4,263		4,263
Prepaid items	3,344			3,344		3,344
Prepaid bond insurance, net					17,959	17,959
Capital assets not being depreciated					6,663,640	6,663,640
Capital assets, net					5,084,719	5,084,719
Total Assets	<u>\$ 439,060</u>	<u>\$ 1,798,204</u>	<u>\$ 614,918</u>	<u>\$ 2,852,182</u>	<u>11,766,318</u>	<u>14,618,500</u>
<b>Deferred Outflows of Resources</b>						
Deferred difference on refunding					571,844	571,844
<b>Liabilities</b>						
Accounts payable	\$ 23,397	\$ -	\$ 134,883	\$ 158,280		158,280
Accrued interest payable					335,646	335,646
Due to developer					12,474,014	12,474,014
Long-term debt						
Due within one year					605,000	605,000
Due after one year					22,642,296	22,642,296
Total Liabilities	<u>23,397</u>		<u>134,883</u>	<u>158,280</u>	<u>36,056,956</u>	<u>36,215,236</u>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	2,449	18,914		21,363	(21,363)	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	3,344			3,344	(3,344)	
Restricted		1,779,290	480,035	2,259,325	(2,259,325)	
Unassigned	409,870			409,870	(409,870)	
Total Fund Balances	<u>413,214</u>	<u>1,779,290</u>	<u>480,035</u>	<u>2,672,539</u>	<u>(2,672,539)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 439,060</u>	<u>\$ 1,798,204</u>	<u>\$ 614,918</u>	<u>\$ 2,852,182</u>		
<b>Net Position</b>						
Net investment in capital assets					(2,602,839)	(2,602,839)
Restricted for debt service					1,462,558	1,462,558
Unrestricted					(19,884,611)	(19,884,611)
Total Net Position					<u>\$ (21,024,892)</u>	<u>\$ (21,024,892)</u>

See notes to basic financial statements.

**Galveston County Municipal Utility District No. 46**  
**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2015**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 232,788	\$ 1,557,761	\$ -	\$ 1,790,549	\$ 11,795	\$ 1,802,344
Penalties and interest		4,079		4,079	3,342	7,421
Accrued interest on bonds sold		8,840		8,840	(8,840)	
Investment earnings	714	3,075	508	4,297		4,297
Total Revenues	<u>233,502</u>	<u>1,573,755</u>	<u>508</u>	<u>1,807,765</u>	<u>6,297</u>	<u>1,814,062</u>
<b>Expenditures/Expenses</b>						
Operating and administrative						
Professional fees	103,295		21,277	124,572		124,572
Contracted services	11,400	23,920		35,320		35,320
Repairs and maintenance	93,638			93,638		93,638
Administrative	25,144	1,835		26,979		26,979
Other	903	2,500	318	3,721		3,721
Capital outlay			3,342,572	3,342,572	(3,342,572)	
Debt service						
Principal		480,000		480,000	(480,000)	
Interest and fees		791,307	442,842	1,234,149	75,541	1,309,690
Debt issuance costs		130,913	266,135	397,048	(18,857)	378,191
Depreciation and amortization					274,188	274,188
Total Expenditures/Expenses	<u>234,380</u>	<u>1,430,475</u>	<u>4,073,144</u>	<u>5,737,999</u>	<u>(3,491,700)</u>	<u>2,246,299</u>
<b>Revenues Over (Under)</b>						
Expenditures/Expenses	(878)	143,280	(4,072,636)	(3,930,234)	3,497,997	(432,237)
<b>Other Financing Sources/(Uses)</b>						
Proceeds from sale of bonds		144,650	4,665,350	4,810,000	(4,810,000)	
Proceeds from sale of refunding bonds		4,335,000		4,335,000	(4,335,000)	
Bond discount		(89,184)	(95,894)	(185,078)	185,078	
Payment to refunded bond escrow agent		(4,112,682)		(4,112,682)	4,112,682	
Internal transfers	38,808		(38,808)			
<b>Other Item</b>						
Transfers to other governments					(5,620,460)	(5,620,460)
<b>Net Change in Fund Balances</b>	37,930	421,064	458,012	917,006	(917,006)	
<b>Change in Net Position</b>					(6,052,697)	(6,052,697)
<b>Fund Balance/Net Position</b>						
Beginning of the year	375,284	1,358,226	22,023	1,755,533	(16,727,728)	(14,972,195)
<b>End of the year</b>	<u>\$ 413,214</u>	<u>\$ 1,779,290</u>	<u>\$ 480,035</u>	<u>\$ 2,672,539</u>	<u>\$ (23,697,431)</u>	<u>\$ (21,024,892)</u>

See notes to basic financial statements.

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***Galveston County Municipal Utility District No. 46***  
***Notes to Basic Financial Statements***  
***June 30, 2015***

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Galveston County Municipal Utility District No. 46 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

**Creation**

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated October 28, 2004, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on January 10, 2005 and the first bonds were sold on February 10, 2009.

The District’s primary activities include construction of water, sewer, drainage and recreational facilities. As further discussed in Note 10, the District transfers certain of these facilities to the City of League City upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

**Reporting Entity**

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

**Government-Wide and Fund Financial Statements**

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Use of Restricted Resources**

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Prepaid Items**

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

**Prepaid Bond Insurance**

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

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2015, an allowance for uncollectible accounts was not considered necessary.

**Interfund Activity**

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

**Capital Assets**

Capital assets, which primarily consist of detention ponds, drainage channels, landscaping improvements, and capital recovery fees, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets are depreciated or amortized using the straight-line method as follows:

Assets	Useful Life
Landscaping improvements	20-45 years
Capital recovery fees	Remaining life of contract

The District’s detention facilities and certain drainage channels (non-concrete) are considered improvements to land and are non-depreciable.



**Note 1 – Summary of Significant Accounting Policies (continued)**

**Deferred Inflows and Outflows of Financial Resources**

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

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

Deferred outflows of financial resources at the government wide level are from a refunding bond transaction in the current year in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

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

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

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

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

*Galveston County Municipal Utility District No. 46*  
*Notes to Basic Financial Statements*  
*June 30, 2015*

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fund Balances – Governmental Funds (continued)**

Unassigned - all other spendable amounts in the General Fund.

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

**Use of Estimates**

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

**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 2 – Adjustment from Governmental to Government-wide Basis**

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

Total fund balance, governmental funds		\$ 2,672,539
Prepaid bond insurance is recorded as an expenditure at the fund level, but is recorded as a prepaid asset and amortized to interest expense over the life of the bonds in the government wide statements.		17,959
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 12,422,752	
Less accumulated depreciation/amortization	<u>(674,393)</u>	
Change due to capital assets		11,748,359
The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.		571,844
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(23,247,296)	
Interest payable on bonds	<u>(335,646)</u>	
Change due to long-term debt		(23,582,942)
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(12,474,014)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		21,363
Total net position - governmental activities		<u><u>\$ (21,024,892)</u></u>

**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

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

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

Net change in fund balances - total governmental funds \$ 917,006

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned.

Property taxes	\$ 11,795	
Penalties and interest	3,342	
		15,137

Capital outlays for developer reimbursements are recorded as expenditures in the fund, but reduce the liability for due to developer in the *Statement of Net Position*. 3,342,572

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

Issuance of long term debt	(9,145,000)	
Bond discount	185,078	
Payment to refunded bond escrow agent	4,112,682	
Principal payments	480,000	
Interest expense accrual	(84,381)	
Debt issuance costs	18,857	
		(4,432,764)

In the *Statement of Activities*, the cost of capital assets retained by the District are depreciated/amortized over the estimated useful lives. (274,188)

The District conveys certain infrastructure to the City of League City upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (5,620,460)

Change in net position of governmental activities \$ (6,052,697)

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

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

**Investments**

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

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

As of June 30, 2015, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>
Certificates of deposit	General	\$ 126,132
	Debt Service	1,249,091
		<u>\$ 1,375,223</u>

The District’s investments in certificates of deposit are stated at cost, which approximates fair value.

**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 4 – Amounts Due to/from Other Funds**

Amounts due to/from other funds at June 30, 2015, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 2,768	\$ -
Debt Service Fund		2,768
	<u>\$ 2,768</u>	<u>\$ 2,768</u>

Amounts reported as due to/from between funds are considered temporary loans needed for normal operations and will be repaid during the following fiscal year.

During the current fiscal year, the District transferred \$38,808 from the Capital Projects Fund to the General Fund in order to reimburse the General Fund for bond issuance costs.

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended June 30, 2015, follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 6,269,027	\$ 394,613	\$ 6,663,640
Capital assets being depreciated/amortized			
Landscaping improvements	2,737,116	495,365	3,232,481
Capital recovery fees	1,963,480	563,151	2,526,631
	<u>4,700,596</u>	<u>1,058,516</u>	<u>5,759,112</u>
Less accumulated depreciation/amortization			
Landscaping improvements	(217,618)	(190,471)	(408,089)
Capital recovery fees	(182,587)	(83,717)	(266,304)
	<u>(400,205)</u>	<u>(274,188)</u>	<u>(674,393)</u>
Subtotal depreciable capital assets, net	<u>4,300,391</u>	<u>784,328</u>	<u>5,084,719</u>
Capital assets, net	<u>\$ 10,569,418</u>	<u>\$ 1,178,941</u>	<u>\$ 11,748,359</u>

Depreciation/amortization expense for the current year was \$274,188.

**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 6 – Due to Developer**

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, drainage, park and recreational facilities. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ. The District does not record the capital asset and related liability on the government wide statements until construction of the facilities is complete.

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

Due to developer, beginning of year	\$ 8,742,997
Developer reimbursements	(3,342,572)
Developer funded construction and adjustments	7,073,589
Due to developer, end of year	<u><u>\$ 12,474,014</u></u>

In addition, the District will owe the developer approximately \$1,767,623, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and audited by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Mar Bella, Section 11B, 15C & 16A - landscaping	\$ 487,517	\$ 132,180	\$ 355,337
Mar Bella, Section 13B - water, sewer and drainage	526,214	478,997	47,217
Mar Bella, Section 15A & 15B - water, sewer and drainage	753,893	116,127	637,766
	<u><u>\$ 1,767,623</u></u>	<u><u>\$ 727,303</u></u>	<u><u>\$ 1,040,320</u></u>

**Note 7 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 23,710,000
Unamortized discounts	(462,704)
	<u><u>\$ 23,247,296</u></u>
Due within one year	<u><u>\$ 605,000</u></u>

**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 7 – Long-Term Debt (continued)**

The District’s bonds payable at June 30, 2015, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009	\$ 165,000	\$ 4,100,000	5.6% - 7.60%	September 1, 2010/2034	September 1, March 1	September 1, 2016
2010	1,935,000	2,100,000	4.4% - 5.60%	September 1, 2011/2035	September 1, March 1	September 1, 2017
2010A	2,795,000	3,000,000	3.0% - 5.00%	September 1, 2012/2035	September 1, March 1	September 1, 2018
2011	3,945,000	4,120,000	2.5% - 5.00%	September 1, 2013/2036	September 1, March 1	September 1, 2019
2012	3,600,000	3,900,000	2.0% - 4.00%	September 1, 2013/2037	September 1, March 1	September 1, 2019
2013	2,125,000	2,175,000	4.0% - 4.63%	September 1, 2014/2037	September 1, March 1	September 1, 2023
2014 Refunding	4,335,000	4,335,000	2.0% - 3.50%	September 1, 2015/2034	September 1, March 1	September 1, 2034
2014	4,810,000	4,810,000	2.0% - 4.00%	September 1, 2016/2038	September 1, March 1	September 1, 2026
	<u>\$ 23,710,000</u>					

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

At June 30, 2015, the District had authorized but unissued bonds in the amount of \$62,295,000 for water, sewer and drainage facilities; \$12,000,000 for park and recreational facilities; and \$55,275,000 for refunding purposes.

On December 10, 2014, the District issued its \$4,335,000 Series 2014 Unlimited Tax Refunding Bonds at a net effective interest rate of 3.768215% to advance refund \$3,610,000 of outstanding Series 2009 bonds. The District advance refunded the bonds to reduce total debt service payments over future years by approximately \$1,284,917 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$912,076. Proceeds of the bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments.



**Galveston County Municipal Utility District No. 46**  
**Notes to Basic Financial Statements**  
**June 30, 2015**

**Note 7 – Long-Term Debt (continued)**

On December 23, 2014, the District issued its \$4,810,000 Series 2014 Unlimited Tax Bonds at a net effective interest rate of 3.468978% to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds.

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

Bonds payable, beginning of year	\$ 18,655,000
Bonds issued	9,145,000
Bonds retired	(480,000)
Bonds refunded	(3,610,000)
Bonds payable, end of year	<u><u>\$ 23,710,000</u></u>

As of June 30, 2015, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2016	\$ 605,000	\$ 921,284	\$ 1,526,284
2017	785,000	864,664	1,649,664
2018	810,000	843,171	1,653,171
2019	855,000	821,665	1,676,665
2020	905,000	797,788	1,702,788
2021	925,000	770,669	1,695,669
2022	950,000	740,532	1,690,532
2023	970,000	708,491	1,678,491
2024	995,000	674,353	1,669,353
2025	1,020,000	638,180	1,658,180
2026	1,045,000	600,379	1,645,379
2027	1,080,000	560,691	1,640,691
2028	1,110,000	518,636	1,628,636
2029	1,150,000	473,970	1,623,970
2030	1,180,000	426,962	1,606,962
2031	1,215,000	377,602	1,592,602
2032	1,255,000	325,780	1,580,780
2033	1,290,000	271,540	1,561,540
2034	1,335,000	215,030	1,550,030
2035	1,375,000	156,360	1,531,360
2036	1,200,000	98,443	1,298,443
2037	845,000	51,712	896,712
2038	550,000	21,713	571,713
2039	260,000	5,200	265,200
	<u><u>\$ 23,710,000</u></u>	<u><u>\$ 11,884,814</u></u>	<u><u>\$ 35,594,814</u></u>

***Galveston County Municipal Utility District No. 46***  
***Notes to Basic Financial Statements***  
***June 30, 2015***

**Note 8 – Property Taxes**

On May 13, 2006, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2015 fiscal year was financed through the 2014 tax levy, pursuant to which the District levied property taxes of \$1.00 per \$100 of assessed value, of which \$0.13 was allocated to maintenance and operations and \$0.87 was allocated to debt service. The resulting tax levy was \$1,802,395 on the adjusted taxable value of \$180,239,462. Net property taxes receivable, at June 30, 2015, consisted of the following:

Current year taxes receivable	\$ 12,697
Prior years taxes receivable	5,324
	<u>18,021</u>
Penalty and interest receivable	3,342
Total property taxes receivable	<u><u>\$ 21,363</u></u>

**Note 9 – Transfers to Other Governments**

In accordance with an agreement between the District and the City of League City (the “City”), the District transfers certain capital assets to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. For the year ended June 30, 2015, the total amount of projects completed and transferred to the City was \$5,620,460.

**Note 10 – Utility Agreement with the City of League City**

On December 3, 2003, the District entered into a Utility Agreement (the “Agreement”) with the City of League City (the “City”) to design and construct water, sewer, storm drainage and recreational facilities to serve residents of the District. The District will convey these assets to the City upon completion of construction. The City will own the facilities and is responsible for the operation of the system. The City will supply water and sewer services to the District’s residents at rates equal and uniform to those charged to similar users within the City. All revenues from the system shall belong exclusively to the City. The term of the Agreement is forty years, unless otherwise previously terminated pursuant to some term or condition of the Agreement or upon dissolution of the District.

*Galveston County Municipal Utility District No. 46*  
*Notes to Basic Financial Statements*  
*June 30, 2015*

**Note 11 – Risk Management**

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

**Required Supplementary Information**

*Galveston County Municipal Utility District No. 46  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Year Ended June 30, 2015*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Property taxes	\$ 219,919	\$ 232,788	\$ 12,869
Investment earnings	750	714	(36)
<b>Total Revenues</b>	<u>220,669</u>	<u>233,502</u>	<u>12,833</u>
<b>Expenditures</b>			
Operating and administrative			
Professional fees	75,500	103,295	(27,795)
Contracted services	12,000	11,400	600
Repairs and maintenance	52,500	93,638	(41,138)
Administrative	27,500	25,144	2,356
Other	15,000	903	14,097
<b>Total Expenditures</b>	<u>182,500</u>	<u>234,380</u>	<u>(51,880)</u>
<b>Revenues Over/(Under) Expenditures</b>	38,169	(878)	(39,047)
<b>Other Financing Source</b>			
Internal transfers		38,808	38,808
<b>Net Change in Fund Balance</b>	38,169	37,930	(239)
<b>Fund Balance</b>			
Beginning of the year	375,284	375,284	
<b>End of the year</b>	<u>\$ 413,453</u>	<u>\$ 413,214</u>	<u>\$ (239)</u>

*Galveston County Municipal Utility District No. 46*  
*Notes to Required Supplementary Information*  
*June 30, 2015*

**Budgets and Budgetary Accounting**

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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## **Texas Supplementary Information**



**Galveston County Municipal Utility District No. 46**  
**TSI-1. Services and Rates**  
**June 30, 2015**

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

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

(You may omit this information if your district does not provide retail services)

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

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

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \_\_\_\_\_ Wastewater \_\_\_\_\_

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

See accompanying auditor's report.

**Galveston County Municipal Utility District No. 46**  
**TSI-1. Services and Rates**  
**June 30, 2015**

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):  
 (You may omit this information if your district does not provide water)

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

4. Standby Fees (authorized only under TWC Section 49.231):  
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes  No

If yes, Date of the most recent commission Order: \_\_\_\_\_

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

If yes, Date of the most recent commission Order: \_\_\_\_\_

5. Location of District (required for first audit year or when information changes,  
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes  No

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

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

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

Is the District located within a city's extra territorial jurisdiction (ETJ)?  
 Entirely  Partly  Not at all

ETJs in which the District is located: \_\_\_\_\_

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

If Yes, by whom? \_\_\_\_\_

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46  
TSI-2 General Fund Expenditures  
For the Year Ended June 30, 2015*

Professional fees		
Legal	\$	45,368
Audit		10,000
Engineering		47,927
		<u>103,295</u>
Contracted services		
Bookkeeping		<u>11,400</u>
Repairs and maintenance		<u>93,638</u>
Administrative		
Directors fees		10,500
Printing and office supplies		1,735
Insurance		6,309
Other		6,600
		<u>25,144</u>
Other		<u>903</u>
Total expenditures	\$	<u><u>234,380</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-3. Investments*  
*June 30, 2015*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
General					
Certificate of deposit	1002290160G	0.40%	10/19/15	\$ 126,132	\$ 98
Debt Service					
Certificate of deposit	12212	0.35%	01/29/15	200,000	292
Certificate of deposit	4188719	0.40%	01/29/15	240,000	400
Certificate of deposit	325	0.40%	05/06/15	240,000	145
Certificate of deposit	220005702	0.45%	01/29/15	240,000	450
Certificate of deposit	9009001831	0.40%	04/20/15	202,094	157
Certificate of deposit	323634	0.20%	06/01/15	126,997	20
				<u>1,249,091</u>	<u>1,463</u>
Total - All Funds				<u>\$ 1,375,223</u>	<u>\$ 1,561</u>

See accompanying auditors' report.

**Galveston County Municipal Utility District No. 46**  
**TSI-4. Taxes Levied and Receivable**  
**June 30, 2015**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 934	\$ 5,292	\$ 6,226	
2014 Original Tax Levy	230,315	1,541,337	1,771,652	
Adjustments	3,997	26,746	30,743	
Adjusted Tax Levy	234,312	1,568,083	1,802,395	
Total to be accounted for	235,246	1,573,375	1,808,621	
Tax collections:				
Current year	232,661	1,557,037	1,789,698	
Prior years	136	766	902	
Total Collections	232,797	1,557,803	1,790,600	
Taxes Receivable, End of Year	\$ 2,449	\$ 15,572	\$ 18,021	
Taxes Receivable, By Years				
2014	\$ 1,650	\$ 11,047	\$ 12,697	
2013	799	4,525	5,324	
Taxes Receivable, End of Year	\$ 2,449	\$ 15,572	\$ 18,021	
	2014	2013	2012	2011
Property Valuations:				
Land	\$ 46,362,460	\$ 38,887,460	\$ 34,937,020	\$ 27,502,420
Improvements	135,603,388	108,756,644	90,402,870	76,090,530
Personal Property	388,989	436,914	401,482	355,714
Exemptions	(2,115,375)	(1,473,188)	(1,161,308)	(1,243,396)
Total Property Valuations	\$ 180,239,462	\$ 146,607,830	\$ 124,580,064	\$ 102,705,268
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.13	\$ 0.15	\$ 0.19	\$ 0.22
Debt service tax rates	0.87	0.85	0.81	0.78
Total Tax Rates per \$100 Valuation	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Adjusted Tax Levy:	\$ 1,802,395	\$ 1,466,078	\$ 1,245,801	\$ 1,027,053
Percentage of Taxes Collected to Taxes Levied **	99.30%	99.64%	100.00%	100.00%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 13, 2006

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

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2009--by Years  
 June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 80,000	\$ 7,000	\$ 87,000
2017	85,000	2,380	87,380
	<u>\$ 165,000</u>	<u>\$ 9,380</u>	<u>\$ 174,380</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2010--by Years*  
*June 30, 2015*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2016	\$ 50,000	\$ 101,180	\$ 151,180
2017	50,000	98,980	148,980
2018	55,000	96,642	151,642
2019	55,000	94,168	149,168
2020	60,000	91,535	151,535
2021	65,000	88,515	153,515
2022	70,000	85,140	155,140
2023	70,000	81,640	151,640
2024	75,000	78,015	153,015
2025	80,000	74,080	154,080
2026	85,000	69,831	154,831
2027	90,000	65,235	155,235
2028	95,000	60,286	155,286
2029	105,000	54,858	159,858
2030	110,000	48,945	158,945
2031	115,000	42,700	157,700
2032	125,000	35,980	160,980
2033	130,000	28,840	158,840
2034	140,000	21,280	161,280
2035	150,000	13,160	163,160
2036	160,000	4,480	164,480
	<u>\$ 1,935,000</u>	<u>\$ 1,335,490</u>	<u>\$ 3,270,490</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2010A--by Years*  
*June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 75,000	\$ 123,881	\$ 198,881
2017	80,000	121,556	201,556
2018	85,000	119,082	204,082
2019	90,000	116,344	206,344
2020	95,000	113,219	208,219
2021	100,000	109,681	209,681
2022	105,000	105,706	210,706
2023	110,000	101,338	211,338
2024	115,000	96,625	211,625
2025	120,000	91,556	211,556
2026	125,000	86,119	211,119
2027	135,000	80,184	215,184
2028	140,000	73,738	213,738
2029	150,000	66,756	216,756
2030	155,000	59,322	214,322
2031	165,000	51,522	216,522
2032	170,000	43,250	213,250
2033	180,000	34,500	214,500
2034	190,000	25,250	215,250
2035	200,000	15,500	215,500
2036	210,000	5,250	215,250
	<u>\$ 2,795,000</u>	<u>\$ 1,640,379</u>	<u>\$ 4,435,379</u>

See accompanying auditors' report.



*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011--by Years*  
*June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 95,000	\$ 176,310	\$ 271,310
2017	100,000	173,748	273,748
2018	105,000	170,797	275,797
2019	115,000	167,353	282,353
2020	120,000	163,384	283,384
2021	125,000	158,973	283,973
2022	135,000	154,061	289,061
2023	140,000	148,663	288,663
2024	150,000	142,788	292,788
2025	155,000	136,419	291,419
2026	165,000	129,516	294,516
2027	175,000	122,078	297,078
2028	185,000	113,625	298,625
2029	195,000	104,125	299,125
2030	205,000	94,125	299,125
2031	215,000	83,625	298,625
2032	230,000	72,500	302,500
2033	240,000	60,750	300,750
2034	255,000	48,375	303,375
2035	265,000	35,375	300,375
2036	280,000	21,750	301,750
	<u>\$ 3,945,000</u>	<u>\$ 2,485,715</u>	<u>\$ 6,430,715</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2012--by Years*  
*June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 150,000	\$ 113,625	\$ 263,625
2017	150,000	110,625	260,625
2018	150,000	107,625	257,625
2019	150,000	104,625	254,625
2020	150,000	101,475	251,475
2021	150,000	98,025	248,025
2022	150,000	94,275	244,275
2023	150,000	90,225	240,225
2024	150,000	85,875	235,875
2025	150,000	81,375	231,375
2026	150,000	76,688	226,688
2027	150,000	71,719	221,719
2028	150,000	66,562	216,562
2029	150,000	61,312	211,312
2030	150,000	55,969	205,969
2031	150,000	50,437	200,437
2032	150,000	44,813	194,813
2033	150,000	39,000	189,000
2034	150,000	33,000	183,000
2035	150,000	27,000	177,000
2036	200,000	20,000	220,000
2037	200,000	12,000	212,000
2038	200,000	4,000	204,000
	<u>\$ 3,600,000</u>	<u>\$ 1,550,250</u>	<u>\$ 5,150,250</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2013--by Years*  
*June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 50,000	\$ 88,500	\$ 138,500
2017	50,000	86,500	136,500
2018	50,000	84,500	134,500
2019	75,000	82,000	157,000
2020	100,000	78,500	178,500
2021	100,000	74,500	174,500
2022	100,000	70,500	170,500
2023	100,000	66,500	166,500
2024	100,000	62,500	162,500
2025	100,000	58,500	158,500
2026	100,000	54,500	154,500
2027	100,000	50,500	150,500
2028	100,000	46,500	146,500
2029	100,000	42,500	142,500
2030	100,000	38,313	138,313
2031	100,000	33,937	133,937
2032	100,000	29,562	129,562
2033	100,000	25,125	125,125
2034	100,000	20,625	120,625
2035	100,000	16,125	116,125
2036	100,000	11,563	111,563
2037	100,000	6,937	106,937
2038	100,000	2,313	102,313
	<u>\$ 2,125,000</u>	<u>\$ 1,131,000</u>	<u>\$ 3,256,000</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2014 Refunding--by Years*  
*June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ 105,000	\$ 129,975	\$ 234,975
2017	70,000	128,225	198,225
2018	165,000	125,875	290,875
2019	170,000	122,525	292,525
2020	180,000	119,025	299,025
2021	185,000	114,450	299,450
2022	190,000	108,825	298,825
2023	200,000	102,975	302,975
2024	205,000	96,900	301,900
2025	215,000	90,600	305,600
2026	220,000	84,075	304,075
2027	230,000	77,325	307,325
2028	240,000	70,275	310,275
2029	250,000	62,769	312,769
2030	260,000	54,638	314,638
2031	270,000	45,856	315,856
2032	280,000	36,400	316,400
2033	290,000	26,425	316,425
2034	300,000	16,100	316,100
2035	310,000	5,425	315,425
	<u>\$ 4,335,000</u>	<u>\$ 1,618,663</u>	<u>\$ 5,953,663</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46  
 TSI-5. Long-Term Debt Service Requirements  
 Series 2014--by Years  
 June 30, 2015*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2016	\$ -	\$ 180,813	\$ 180,813
2017	200,000	142,650	342,650
2018	200,000	138,650	338,650
2019	200,000	134,650	334,650
2020	200,000	130,650	330,650
2021	200,000	126,525	326,525
2022	200,000	122,025	322,025
2023	200,000	117,150	317,150
2024	200,000	111,650	311,650
2025	200,000	105,650	305,650
2026	200,000	99,650	299,650
2027	200,000	93,650	293,650
2028	200,000	87,650	287,650
2029	200,000	81,650	281,650
2030	200,000	75,650	275,650
2031	200,000	69,525	269,525
2032	200,000	63,275	263,275
2033	200,000	56,900	256,900
2034	200,000	50,400	250,400
2035	200,000	43,775	243,775
2036	250,000	35,400	285,400
2037	250,000	25,400	275,400
2038	250,000	15,400	265,400
2039	260,000	5,200	265,200
	<u>\$ 4,810,000</u>	<u>\$ 2,113,938</u>	<u>\$ 6,923,938</u>

See accompanying auditors' report.

*Galveston County Municipal Utility District No. 46*  
*TSI-5. Long-Term Debt Service Requirements*  
*All Bonded Debt Series--by Years*  
*June 30, 2015*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2016	\$ 605,000	\$ 921,284	\$ 1,526,284
2017	785,000	864,664	1,649,664
2018	810,000	843,171	1,653,171
2019	855,000	821,665	1,676,665
2020	905,000	797,788	1,702,788
2021	925,000	770,669	1,695,669
2022	950,000	740,532	1,690,532
2023	970,000	708,491	1,678,491
2024	995,000	674,353	1,669,353
2025	1,020,000	638,180	1,658,180
2026	1,045,000	600,379	1,645,379
2027	1,080,000	560,691	1,640,691
2028	1,110,000	518,636	1,628,636
2029	1,150,000	473,970	1,623,970
2030	1,180,000	426,962	1,606,962
2031	1,215,000	377,602	1,592,602
2032	1,255,000	325,780	1,580,780
2033	1,290,000	271,540	1,561,540
2034	1,335,000	215,030	1,550,030
2035	1,375,000	156,360	1,531,360
2036	1,200,000	98,443	1,298,443
2037	845,000	51,712	896,712
2038	550,000	21,713	571,713
2039	260,000	5,200	265,200
	<u>\$ 23,710,000</u>	<u>\$ 11,884,814</u>	<u>\$ 35,594,814</u>

See accompanying auditors' report.

**Galveston County Municipal Utility District No. 46**  
**TSI-6. Change in Long-Term Bonded Debt**  
**June 30, 2015**

	Bond Issue			
	Series 2009	Series 2010	Series 2010A	Series 2011
Interest rate	5.6% - 7.6%	4.4% - 5.6%	3.0% - 5.0%	2.5% - 5.0%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/10 - 9/1/34	9/1/11 - 9/1/35	9/1/12 - 9/1/35	9/1/13 - 9/1/36
Beginning bonds outstanding	\$ 3,850,000	\$ 1,980,000	\$ 2,865,000	\$ 4,035,000
Bonds issued				
Bonds refunded	(3,610,000)			
Bonds retired	(75,000)	(45,000)	(70,000)	(90,000)
Ending bonds outstanding	<u>\$ 165,000</u>	<u>\$ 1,935,000</u>	<u>\$ 2,795,000</u>	<u>\$ 3,945,000</u>
Interest paid during fiscal year	<u>\$ 143,203</u>	<u>\$ 103,270</u>	<u>\$ 126,056</u>	<u>\$ 178,623</u>
Paying agent's name and city				
Series 2009, 2010 and 2010A	Wells Fargo Bank, N.A., Houston, Texas			
Series 2011 and 2012	Wells Fargo Bank, N.A., Dallas, Texas			
Series 2013	Wells Fargo Bank, N.A., Minneapolis, Minnesota			
Series 2014 Refunding and 2014	The Bank of New York Mellon Trust Company N.A., Dallas, Texas			
Bond Authority:	Water, Sewer and Drainage Bonds	Park and Recreation Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 86,500,000	\$ 12,000,000	\$ 56,000,000	
Amount Issued	(24,205,000)		(725,000)	
Remaining To Be Issued	<u>\$ 62,295,000</u>	<u>\$ 12,000,000</u>	<u>\$ 55,275,000</u>	

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

Debt Service Fund cash and investments balances as of June 30, 2015: \$ 1,778,000

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,483,117

See accompanying auditors' report.

Bond Issue

Series 2012	Series 2013	Series 2014 Refunding	Series 2014	Totals
2.0% - 4.0% 9/1; 3/1 9/1/13 - 9/1/37	4.0% - 4.625% 9/1; 3/1 9/1/14 - 9/1/37	2.0% - 3.5% 9/1; 3/1 3/1/15 - 9/1/34	2.0% - 4.0% 9/1; 3/1 9/1/15 - 9/1/38	
\$ 3,750,000	\$ 2,175,000	\$ -	\$ -	\$ 18,655,000
		4,335,000	4,810,000	9,145,000
				(3,610,000)
(150,000)	(50,000)			(480,000)
<u>\$ 3,600,000</u>	<u>\$ 2,125,000</u>	<u>\$ 4,335,000</u>	<u>\$ 4,810,000</u>	<u>\$ 23,710,000</u>
<u>\$ 116,625</u>	<u>\$ 90,500</u>	<u>\$ 32,756</u>	<u>\$ -</u>	<u>791,033</u>



*Galveston County Municipal Utility District No. 46*  
*TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund*  
*For the Last Five Fiscal Years*

	Amounts				
	2015	2014	2013	2012	2011
Revenues					
Property taxes	\$ 232,788	\$ 219,090	\$ 236,598	\$ 227,431	\$ 187,412
Investment earnings	714	799	740	546	1,070
Total Revenues	<u>233,502</u>	<u>219,889</u>	<u>237,338</u>	<u>227,977</u>	<u>188,482</u>
Expenditures					
Operating and administrative					
Professional fees	103,295	119,004	82,679	71,811	89,986
Contracted services	11,400	12,650	10,213	11,163	11,150
Repairs and maintenance	93,638	55,149	51,596	53,113	12,104
Administrative	25,144	31,768	33,439	19,326	21,878
Other	903		199	135	5,568
Capital outlay				51,789	
Total Expenditures	<u>234,380</u>	<u>218,571</u>	<u>178,126</u>	<u>207,337</u>	<u>140,686</u>
Revenues Over (Under) Expenditures	<u>\$ (878)</u>	<u>\$ 1,318</u>	<u>\$ 59,212</u>	<u>\$ 20,640</u>	<u>\$ 47,796</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2015	2014	2013	2012	2011
100%	100%	100%	100%	99%
*	*	*	*	1%
100%	100%	100%	100%	100%
44%	54%	35%	31%	48%
5%	6%	4%	5%	6%
40%	25%	22%	23%	6%
11%	14%	14%	8%	12%
*		*	*	3%
			23%	
100%	99%	75%	90%	75%
-	1%	25%	10%	25%

**Galveston County Municipal Utility District No. 46**  
**TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund**  
**For the Last Five Fiscal Years**

	Amounts				
	2015	2014	2013	2012	2011
Revenues					
Property taxes	\$ 1,557,761	\$ 1,241,362	\$ 1,008,479	\$ 805,561	\$ 560,924
Penalties and interest	4,079	4,235	3,668	3,824	1,321
Accrued interest on bonds sold	8,840	7,371	6,393	14,651	1,093
Investment earnings	3,075	2,544	3,259	4,067	5,074
Total Revenues	<u>1,573,755</u>	<u>1,255,512</u>	<u>1,021,799</u>	<u>828,103</u>	<u>568,412</u>
Expenditures					
Tax collection services	25,755	21,283	17,961	14,720	11,812
Arbitrage expense	2,500	2,500			
Debt service					
Principal	480,000	415,000	170,000	100,000	55,000
Interest and fees	791,307	877,406	734,190	588,895	462,640
Debt issuance costs	130,913				
Total Expenditures	<u>1,430,475</u>	<u>1,316,189</u>	<u>922,151</u>	<u>703,615</u>	<u>529,452</u>
Revenues Over (Under) Expenditures	<u>\$ 143,280</u>	<u>\$ (60,677)</u>	<u>\$ 99,648</u>	<u>\$ 124,488</u>	<u>\$ 38,960</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2015	2014	2013	2012	2011
99%	99%	99%	98%	99%
*	*	*	*	*
1%	1%	1%	2%	*
*	*	*	*	1%
100%	100%	100%	100%	100%
2%	2%	2%	2%	2%
*	*			
31%	33%	17%	12%	10%
50%	70%	72%	71%	81%
8%				
91%	105%	91%	85%	93%
9%	(5%)	9%	15%	7%

**Galveston County Municipal Utility District No. 46**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended June 30, 2015**

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027  
District Business Telephone Number: (713) 860-6400  
Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): June 30, 2014  
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
E. Rusty Vidrine	05/12-05/16	\$ 1,500	\$ -	President
Dennis O'Neal	05/14-05/18	3,000	1,842	Vice President
Hobart Sibley	05/12-05/16	1,650		Secretary
Scipio Spinks	05/14-05/18	3,000	1,866	Assistant Secretary
Trent Richert	05/14-05/18	1,350	504	Assistant Vice President
<b>Consultants</b>				
Allen Boone Humphries Robinson LLP	2005	<u>Amounts Paid</u>		Attorney
<i>General legal</i>		\$ 58,246		
<i>Bond counsel</i>		179,329		Operator
Myrtle Cruz, Inc.	2005	20,482		Bookkeeper
Assessments of the Southwest, Inc.	2005	13,830		Tax Collector
Galveston Central Appraisal District	Legislature	12,210		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott LLP	2005	219		Delinquent Tax Attorney
LJA Engineering, Inc.	2007	68,646		Engineer
McGrath & Co., PLLC	Annual	19,000		Auditor
First Southwest Company	2005	142,976		Financial Advisor

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

See accompanying auditors' report.