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TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
Protecting Texas by Reducing and Preventing Pollution

August 1, 2017

Mr. Brent Novelli, President
Galveston County Municipal Utility District No. 14
C/o Schwartz Page & Harding LLP
1300 Post Oak Blvd., Suite 1400
Houston, Texas 77056

Re: Issuance of bonds by Galveston County Municipal Utility District No. 14 (the "District")
in the amount of \$2,050,000 at a net effective interest rate of 4.39%

Dear Mr. Novelli:

Enclosed are certified copies of an Order of the Texas Commission on Environmental Quality (TCEQ) approving your District's project and the issuance of bonds in the amount of \$2,050,000 at a net effective interest rate of 4.39% to finance the District's projects, all being more fully set out in the order.

Your attention is directed to Texas Water Code Section 54.601, which reads as follows:

At the time bonds payable in whole or in part from taxes are issued, the board shall levy a continuing direct annual ad valorem tax for each year while all or part of the bonds are outstanding on all taxable property within the District in sufficient amount to pay the interest on the bonds as it becomes due and to create a sinking fund for the payment of the principal of the bonds when due or the redemption price at any earlier required redemption date and to pay the expenses of assessing and collecting the taxes.

Based on the projected taxable assessed valuation discussed in the TCEQ memorandum associated with the District's application, we have concluded that initially a tax of \$0.55 per \$100 valuation should be levied to pay interest, principal, and the cost of assessing and collecting such taxes. Application of the recommended tax rate to this property valuation should provide sufficient funds to satisfy the average annual debt service requirement of \$1,672,308.

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Mr. Brent Novelli, President
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You should read the enclosed order carefully. This action is taken under authority delegated by the Executive Director of the TCEQ. Please take particular note of the provision that no substantial alterations in the approved plans and specifications shall be made without prior TCEQ approval. This is a requirement of Texas Water Code Section 49.182.

A copy of the TCEQ's order and this letter are being sent to the Attorney General's Office, Public Finance Division, Austin, Texas. Additional copies are being provided to your attorney, engineer, and fiscal agent of record.

Sincerely,



Cari-Michel La Caille, Director
Water Supply Division
Texas Commission on Environmental Quality

CML/CS

Enclosures

cc: Mr. Mathew Reed – Schwartz Page & Harding LLP – 1300 Post Oak Blvd., –Suite 1400 -
Houston, Texas 77056

Mr. Jack Carter, P.E. – Dannenbaum Engineering Corp. – 3100 W Alabama - Houston,
Texas 77098

Mr. Greg Lentz – First Southwest Company – 700 Milam Street - Suite 500 – Houston,
Texas 77002

Attorney General's Office – Public Finance Division – P.O. Box 12548 – Capitol Station –
Austin, Texas 78711-2548

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



THE STATE OF TEXAS
COUNTY OF TRAVIS
I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY
OF A TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
DOCUMENT, WHICH IS FILED IN THE PERMANENT RECORDS

AUG 01 2017

OF THE COMMISSION, GIVEN UNDER MY HAND AND THE
SEAL OF OFFICE ON

Bridget C. Bohan
BRIDGET C. BOHAN, CHIEF CLERK
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

AN ORDER APPROVING AN ENGINEERING PROJECT AND THE ISSUANCE OF \$2,050,000 IN UNLIMITED TAX BONDS FOR GALVESTON COUNTY MUNICIPAL UTILITY DISTRICT NO. 14

An application by Galveston County Municipal Utility District No. 14 (the "District") was presented to the Executive Director of the Texas Commission on Environmental Quality (TCEQ) for consideration of approval pursuant to TEX. WATER CODE §§ 5.122 and 49.181. The District requests approval of an engineering project and the issuance of \$2,050,000 in bonds to finance: engineering, testing, and storm water pollution plan (swppp) costs, developer interest, and water, wastewater, and drainage facilities serving Bay View Sections 3 & 4. The TCEQ has jurisdiction to consider this matter, and the following Findings of Fact and Conclusions of Law are appropriate after examining the application and supporting documentation.

FINDINGS OF FACT

1. The District filed an application with the TCEQ on May 25, 2017, for approval of a proposed engineering project and the issuance of \$2,050,000 in bonds.
2. The Executive Director has investigated the District.
3. The application and accompanying documents have been examined. The project site was visited by a member of the Districts Section on July 6, 2017, and a memorandum was prepared on the project dated July 10, 2017, a copy of which is attached and made a part hereof.
4. The District's project and the issuance of \$2,050,000 in bonds at a maximum net effective interest rate of 4.39% to finance the project should be approved. Further, direct that the bonds are to be sold only upon the District receiving an acceptable credit rating on the bonds as defined in 30 TEX. ADMIN. CODE § 293.47(b).
5. A waiver of the 30% developer contribution requirement pursuant to 30 TEX. ADMIN. CODE § 293.47(a)(1) should be granted if the District receives an acceptable credit rating on the bonds as defined in 30 TEX. ADMIN. CODE § 293.47(b).
6. The District should be directed not to purchase facilities or assume facility contracts from the developer until either (a) the TCEQ's region office has inspected the project, and the District has received a region office report with no deficiencies noted, for which approval is valid for 120 days from the date of the order approving the bonds; or, if a region office report indicates deficiencies, (b) the TCEQ's Districts Section has received a request from the District and a region office report, reviewed the contract administration, and given written authorization to finalize the purchase or assumption; either one pursuant to 30 TEX. ADMIN. CODE § 293.69

7. The District's Board of Directors should be directed to review to its satisfaction the detailed calculations of the developer's interest to ensure that the costs are authorized District expenditures and in accordance with 30 TEX. ADMIN. CODE §293.50 before reimbursement to the developer is made.

8. The District should be advised that the legal, fiscal agent and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report.

9. The District should be directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to TCEQ rules on surplus funds.

CONCLUSIONS OF LAW

1. The TCEQ has jurisdiction to consider the engineering report and bond application pursuant to TEX. WATER CODE § 49.181.

2. The Executive Director has investigated the District, and the TCEQ has found it legally organized and feasible.

3. The Districts Section's memorandum dated July 10, 2017, on this engineering project and bond issue should be adopted as the written TCEQ project report in compliance with TEX. WATER CODE § 49.181(d).

NOW, THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY that the Districts Section's memorandum dated July 10, 2017, on this bond issue is adopted as the written TCEQ project report. Pursuant to TEX. WATER CODE § 49.181, the engineering project for Galveston County Municipal Utility District No. 14 is hereby approved together with the issuance of \$2,050,000 in bonds at a maximum net effective interest rate of 4.39 %. Further, the District is directed that the bonds are to be sold only upon the District receiving an acceptable credit rating on the bonds as defined in 30 TEX. ADMIN. CODE § 293.47(b). A waiver of the 30% developer contribution requirement pursuant to 30 TEX. ADMIN. CODE §293.47(a)(1) is granted if the District receives an acceptable credit rating on the bonds as defined in 30 TEX. ADMIN. CODE § 293.47(b). The District is directed not to purchase facilities or assume facility contracts from the developer until either (a) the TCEQ's region office has inspected the project, and the district has received a region office report with no deficiencies noted, for which approval is valid for 120 days from the date of the order approving the bonds; or, if a region office report indicates deficiencies, (b) the TCEQ's Districts Section has received a request from the District and a region office report, reviewed the contract administration, and given written authorization to finalize the purchase or assumption; either one pursuant to 30 TEX. ADMIN. CODE §293.69. The District's Board of Directors is directed to review to its satisfaction the detailed calculations of the developer's interest to ensure that the costs are authorized District expenditures and in accordance with 30 TEX. ADMIN. CODE §293.50 before reimbursement to the developer is made. The District is advised that the legal, fiscal agent and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report. The District is directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to TCEQ rules on surplus funds. The approval of the sale of these bonds herein shall be valid for one year from the date of this Order unless extended by written authorization from the TCEQ.

BE IT FURTHER ORDERED that pursuant to TEX. WATER CODE § 5.701, the District shall pay to the TCEQ 0.25% of the principal amount of bonds actually issued not later than the

seventh (7th) business day after receipt of the bond proceeds. The fees shall be paid by check payable to the Texas Commission on Environmental Quality.

BE IT FURTHER ORDERED that to enable the TCEQ to carry out the responsibilities imposed by TEX. WATER CODE §§ 49.181-182, the District shall (1) furnish the Districts Section copies of all bond issue project construction documentation outlined under 30 TEX. ADMIN. CODE § 293.62, including detailed progress reports and as-built plans required by TEX. WATER CODE § 49.277(b), that has not already been submitted; (2) notify the Districts Section and obtain approval of the TCEQ for any substantial alterations in the engineering project approved herein before making such alterations; and (3) ensure, as required by TEX. WATER CODE § 49.277(b), that all construction financed with the proceeds from the sale of bonds is completed by the construction contractor according to the plans and specifications contracted.

BE IT FURTHER ORDERED that failure of said District to comply with all applicable laws and with provisions of this Order shall subject the District and its directors to all penalties that are provided by law and shall further be considered by the TCEQ as grounds for refusal to approve other bonds of the District.

The Chief Clerk of the TCEQ is directed to forward the District a copy of this Order.

If any provision, sentence, clause, or phrase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date: **July 28, 2017**


For the Commission

Texas Commission on Environmental Quality

TECHNICAL MEMORANDUM

To: *R* Chris S. Ulmann, P.E. Manager
Districts Section

Date: July 10, 2017

Thru: Tom Glab, Leader
Districts Bond Team

From: Clyde Sifford, P.E.
Districts Bond Team

Subject: Galveston County Municipal Utility District No. 14; Application for Approval of \$2,050,000 Unlimited Tax Bonds, Eighth Issue, 4.39% Net Effective Interest Rate, Series 2017; Pursuant to Texas Water Code Section 49.181
TCEQ Internal Control No. D-05252017-038 (TC)
CN: 600735971 RN:101393924

A. GENERAL INFORMATION

The Texas Commission on Environmental Quality (TCEQ) has received an application from the Galveston County Municipal Utility District No. 14 (District) requesting approval for the issuance of \$2,050,000 in unlimited tax bonds to finance the District's share of the following projects:

1. Engineering, testing, and storm water pollution prevention plan (swppp) costs
2. Developer interest
3. Water, wastewater, and drainage facilities serving the following development within the District:

<u>Development</u>	<u>Type of Development</u>	<u>Acreage</u>	<u>Active ESFCs (1)</u>	<u>Ultimate ESFCs</u>
Bay View Section 3	Single-Family	12.98	35	57
Bay View Section 4	Single-Family	<u>18.32</u>	<u>0</u>	<u>72</u>
	Totals	31.30	35	129

Note: (1) Equivalent Single Family Connections as of May 1, 2017, as stated in the engineering report.

The District's previous bond issues funded utilities to serve 1,620 ESFCs on 367.1 acres (revised from previous bond issues). Including this bond issue, the District will have funded 1,749 ESFCs on 398.4 acres. According to the engineering report and based on the current total District area of 556.48 acres, the District is projected to serve 1,970 ESFCs on 445.93 developable acres at build-out (revised from previous bond issues).

B. ECONOMIC ANALYSIS

Tax Rate Analysis

The financial feasibility of this bond issue is based on no-growth to an estimated taxable assessed valuation of \$267,147,677 as of February 15, 2017. A market study has not been provided and is not required since the feasibility of this proposed bond issue is based on no-growth.

According to a Galveston Central Appraisal District certificate, the District's January 1, 2016, certified taxable assessed valuation was \$243,993,941. The annual debt service requirement for the proposed

bond amount of \$2,050,000 and existing debt averages \$1,672,308 for the 8-year life of the District's bond debt. The District levied a maintenance tax of \$0.05 in 2016 and is projecting to levy a \$0.05 maintenance tax in the future.

The District's financial advisor submitted a cash flow schedule considering the requested \$2,050,000 bond issue, no-growth to an estimated taxable assessed valuation of \$267,147,677 as of February 15, 2017, no capitalized interest, a bond interest rate of 3.75%, a 1.5% bond discount, a 97% collection rate, and a projected tax rate of \$0.55 per \$100 assessed valuation.

A Districts Section financial analyst has reviewed the financial information submitted and concludes that the following level of debt service tax rates would be sufficient:

<u>District</u>	<u>Projected Tax Rate</u>	
Debt Service	\$0.55	(1)(2)
Maintenance Tax	0.05	
League City Tax	<u>0.06</u>	(3)
Total District Taxes	\$0.66	(4)

Notes:

- ⁽¹⁾ Based on a net effective interest rate of 4.39%, a 97% collection rate, no-growth to an estimated taxable assessed valuation of \$267,147,677 and at least a 25% ending debt service fund balance.
- ⁽²⁾ The term "commission approved tax rate" in 30 Texas Administration Code (TAC) Section 293.85 refers to an initial ad valorem debt service tax rate of at most \$0.55 per \$100 assessed valuation.
- ⁽³⁾ Portion of League City's tax rate attributed to providing recreation and drainage benefit to the District.
- ⁽⁴⁾ Represents the combined projected tax rate as defined by 30 TAC Section 293.59 (f).

Additional Financial Comments

The District is exempt from the 75% and 25% build-out requirements of 30 TAC Sections 293.59(l)(4) and 293.59(k)(7), respectively, based on its combined no-growth tax rate of \$0.66 being less than \$1.50 pursuant to 30 TAC Sections 293.59(l) and 293.59(k)(11)(C).

C. ENGINEERING ANALYSIS

Water Supply

The District receives its potable water from the City of League City ("City"). Pursuant to the "Restated Utility Agreement between the District and the City, dated January 22, 1999, and correspondence dated, March 12, 2004, the City will provide the District with sufficient capacity to serve all platted areas upon the City's acceptance of such plats. The District is responsible for constructing its water system and upon completion, transferring ownership to the City. The City is then responsible for operation and maintenance.

The District currently has no emergency interconnects with any system outside the City's water system.

According to the engineering report, the City's existing water infrastructure is capable of serving 2,600 ESFCs, which is sufficient to serve the existing 1,665 ESFCs upon which the engineering feasibility of this bond issue is based.

Wastewater Treatment

According to the engineering report, the District receives its wastewater treatment service from the City's Dallas Salmon wastewater treatment plant (WWTP) which has a capacity for approximately 4,014

connections. The Restated Utility Agreement between the District and the City and correspondence dated March 12, 2004, provide the basis for service. Based on League City's approved flow rate of 234 gpd/ ESFC, the District's share of this WWTP is capable of serving 2,600 ESFCs.

The City's Dallas Salmon Wastewater plant's current wastewater treatment capacity appears adequate to serve the existing 1,665 ESFCs upon which the engineering feasibility of this bond issue is based.

Storm Water Drainage

Storm water for the District is collected by a system of underground storm sewers that drain into Borden's Gulley and Magnolia Bayou which are tributaries of Dickinson Bayou. Detention ponds are used to control developed runoff. There is funding for internal storm sewers in this bond issue.

Purchase of Existing Facilities/Assumption of Existing Contracts

<u>Project</u>	<u>Contractor</u>	<u>% Complete To Date</u>	<u>Contract Amount ⁽¹⁾</u>	<u>Amt. Subj. to Distr. Contrib.</u>
Bay View Sections 3 & 4 W, WW, D	Triple B Services, LLP	100% (12/13/16)	\$1,592,849	\$1,588,889 ⁽²⁾

Notes:

- (1) Represents the original contract amount net of change orders and quantity adjustments.
- (2) Contract amount less \$2,200 for brush removal and \$1,760 for mowing.

Approved plans, specifications and various contract documents have been provided.

Facilities to be Constructed

None

Inspection

The District was inspected by a member of the District's Section staff on July 6, 2017. The District appeared as present in the application. District name signs were properly posted.

D. SUMMARY OF COSTS

<u>Construction Costs</u>	<u>District's Share ⁽¹⁾</u>
<u>A. Developer Contribution Items</u>	
1. Bay View Sections 3 & 4 W, WW, D	\$1,588,889
2. Engineering Fees	173,762
3. Material Testing	26,075
4. SWPPP	17,641
5. Surveying	14,325
Total Developer Contribution Items	\$1,820,692
<u>B. District Contribution Items- None</u>	\$0.0
Total Construction Costs (88.81% of BIR)	\$1,820,692
<u>Non-Construction Costs</u>	
A. Legal Fees (2.99%)	\$61,250 ⁽²⁾
B. Fiscal Agent Fees (2.00%)	41,000 ⁽³⁾
C. Interest	

1. Developer Interest	22,683 ⁽⁴⁾
D. Bond Discount (1.5%)	30,750
E. Bond Issuance Cost	36,450
F. Bond Application Report Cost	30,000
G. Attorney General's Fee (0.10%)	2,050
H. TCEQ Bond Issuance Fee (0.25%)	5,125
Total Non-Construction Costs (11.19% of BIR)	\$229,308
Total Bond Issue Requirement	\$2,050,000

- Notes: (1) The District has requested a waiver of the 30% developer contribution requirement of 30 TAC Section 293.47.
(2) Contract provided indicates the fee to be 3.5% of the first \$1,000,000 of bonds issued, plus 2.5% of the bonds issued above \$1,000,000.
(3) Contract provided indicates the fee to be 2% of the amount of bonds issued.
(4) Based on an estimated interest rate of 3.75% and a funding date of December 31, 2017, or at a maximum of two years in accordance with 30 TAC Section 293.50(a). This amount represents a number selected by the applicant to reimburse the developer in this issue due to bond limitations. The engineer's report states that the total amount due the developer includes interest on the construction, engineering, construction testing, surveying, swppp, and bond report preparation for Bay View Section 3 & 4. The total amount of developer's interest calculated is \$100,090. The District reserves the right to reimburse the developer for the remaining amount of \$77,407 in a future bond issue.

E. SPECIAL CONSIDERATIONS

1. 30% Developer Contribution Request

The District has requested a conditional waiver from the 30% developer contribution requirement of 30 TAC Section 293.47, pursuant to 30 TAC Section 293.47(a)(2), based upon the District obtaining an acceptable credit rating on the bonds. By letter dated November 17, 2016, the District's financial advisor has indicated that the District anticipates obtaining an acceptable credit rating on the proposed bond issue, thereby qualifying for the requested waiver. Accordingly, the District's request for a conditional waiver of the 30% developer contribution requirement can be granted pursuant to 30 TAC Section 293.47(a)(2).

2. Market Study Requirement

The District has requested an exemption from the requirement to submit an independent market study as required in 30 TAC Section 293.59(k)(10). A market study is not required for this bond issue as a result of this application being based on no-growth.

CONCLUSIONS

1. Based on \$23,500,000 in unlimited tax bonds approved by voters and \$19,090,000 previously approved by the TCEQ and issue by the District for water, wastewater and drainage, the District has sufficient voter authorized bonds (\$4,410,000) for the proposed bond issue.
2. Based on the review of the engineering report and supporting documents, the bond issue is considered feasible and meets the criteria established by the TCEQ feasibility rules, 30 TAC Section 293.59.
3. The recommendations are made under authority delegated by the Executive Director of the TCEQ.

F. RECOMMENDATIONS

1. Approve this bond issue in the amount of \$2,050,000 in accordance with the recommended summary of costs at a maximum net effective interest rate of 4.39%. Further, direct that the bonds are to be sold only upon the District receiving an acceptable credit rating on the bonds as defined in 30 TAC Section 293.47(b).
2. Grant a conditional waiver from the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(2) if the District receives an acceptable credit rating on the bonds as defined in 30 TAC Section 293.47(b).
3. Standard recommendations regarding developer interest, purchase of facilities, consultant fees, surplus proceeds, time of approval, and bond proceeds fee apply.