

Texas Commission on Environmental Quality

TECHNICAL MEMORANDUM

To: Justin P. Taack, Manager *JP*
Districts Section *for*
8/5/2025

Date: August 5, 2025

Thru: Daniel Finnegan, Team Lead
Districts Bond Team

From: Kamal Adhikari, EIT
Districts Bond Team

Subject: Galveston County Municipal Utility District No. 73; Application for Approval of \$6,000,000 Unlimited Tax Bonds, Second Issue, 5.18% Net Effective Interest Rate; Pursuant to Texas Water Code Section 49.181.
TCEQ Internal Control No. D-05082025-033 (TC)
CN: 605628346 RN: 110694346

A. GENERAL INFORMATION

The Texas Commission on Environmental Quality (TCEQ) received an application from Galveston County Municipal Utility District (MUD) No. 73 (District) for approval of the issuance of \$6,000,000 in unlimited tax bonds to finance the following:

1. Additional construction costs for Samara lift station and force main;
2. Construction costs for Samara Detention Phase 1;
3. District creation and operating expenses;
4. Land acquisition costs for Detention Ponds 1 and 2 and lift station; and
5. Capital recovery fees for remaining portion of Samara Section 5.

The District's previous bond issues did not fund internal utilities. This bond issue is not funding internal utilities. According to the engineering report and based on a current District area of 786.55 acres, the District's ultimate development is projected to serve 1,529 equivalent single-family connections (ESFCs).

B. ECONOMIC ANALYSIS

Tax Rate Analysis

The feasibility of this bond issue is based on no-growth to January 1, 2025, estimated taxable assessed valuation of \$137,134,931. A market study has not been provided and is not required since the feasibility of this bond issue is based on no-growth.

According to a Galveston Central Appraisal District certificate, the District's January 1, 2025, estimated taxable assessed valuation is \$137,134,931. The annual debt service requirement for a \$6,000,000 bond issue and existing debt averages \$1,081,114 for the 27-year life of the District's bond debt. According to the engineering report, the District levied a maintenance tax rate of \$0.65 in 2024 and is projecting to levy a maintenance tax rate of approximately \$0.65 in the future.

The District's financial advisor submitted a cash flow schedule considering the requested \$6,000,000 bond issue, no-growth to a January 1, 2025, estimated taxable assessed valuation of \$137,134,931, twelve months of capitalized interest, a 5.0% bond interest rate, a 3% bond discount, a 95% collection rate, and a projected tax rate of \$0.89 per \$100 assessed valuation.

A TCEQ Districts Section financial analyst has reviewed the financial information submitted and concluded that the following level debt service tax rate would be sufficient.

	<u>Projected Tax Rate</u>
District	
Debt Service	\$0.890 ⁽¹⁾⁽²⁾
Maintenance Tax	\$0.230
City of League City (City) Taxes Attributable to Water, Wastewater, and Drainage	<u>\$0.059</u> ⁽³⁾
Total District Taxes	\$1.179 ⁽⁴⁾

Notes:

- (1) Based on a proposed \$6,000,000 bond issue, existing debt, a net effective interest rate of 5.18%, a 95% tax collection rate, no-growth to a January 1, 2025, estimated taxable assessed valuation of \$137,134,931, twelve months of capitalized interest, and at least a 25% ending debt service fund balance.
- (2) The term "commission-approved tax rate" in 30 Texas Administrative Code (TAC) Section 293.85 refers to an initial ad valorem debt service tax rate of at most \$0.89 per \$100 assessed valuation.
- (3) According to engineering report, the District's share of taxes attributable to water, wastewater, drainage, or recreation.
- (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 \$1.179 not exceeding \$1.50 pursuant to 30 TAC Sections 293.59(l) and 293.59(k)(11)(C).

C. ENGINEERING ANALYSIS

Water Supply

Pursuant to the "Utility Agreement" between the City and the District, the City provides water to the District. The District is responsible for constructing the water supply facilities within the District boundaries, then the facilities are turned over to the City for operation and maintenance. The City is responsible for the regional facilities providing service to the District. The District will pay pro-rata share for the regional facilities based on the number of connections with capital recovery fees.

The District does not have emergency interconnects with any other public water systems.

The City's existing water supply capacity is sufficient to service approximately 55,000 ESFCs (based on source capacity), which appears adequate to serve the existing 450 ESFCs upon which the feasibility of this bond issue is based.

Wastewater Treatment

Pursuant to the "Utility Agreement" between the City and the District, the City provides the District with treated wastewater service. The District is responsible for constructing the wastewater facilities within the District boundaries, then the facilities are turned over to the City for operation and maintenance. The City is responsible for the regional facilities providing service to the District. The District will pay pro-rata share for the regional facilities based on the number of connections with capital recovery fees.

The City currently operates wastewater treatment facilities under Texas Pollutant Discharge Elimination System Permit No. WQ0010568005 which currently authorizes the annual average flow of 12 million gallons per day. Based on a design criterion of 300 gpd/ESFC, the City wastewater treatment capacity is sufficient to serve 40,000 ESFCs, which appears adequate to serve the existing 450 ESFCs upon which the feasibility of this bond issue is based.

Storm Water Drainage

A majority of the District naturally drains southeast to Magnolia Bayou which ultimately outfalls for Dickinson Bayou. A minority of the District drains southwest through a series of roadside ditches to an upstream portion of Dickinson Bayou. Storm water within the District is provided by underground lines and conveyed to detention basins. The detention basins outfalls into Magnolia Bayou through Bay Colony West MUD.

Purchase of Existing Facilities

<u>Project</u>	<u>Contractor</u>	<u>% Complete Date</u>	<u>Final Contract Amount</u> ⁽¹⁾	<u>Amount Subject to Dist. Contribution</u>
Samara Lift Station and Force Main	5J Services, LLC	98% (05/2024)	\$2,149,820	\$2,149,820 \$1,390,542 ⁽²⁾
Detention and Grading to serve Samara Phase 1	Longhorn Excavators, Inc.	100% (04/2023)	\$5,636,212	\$4,737,406 ⁽³⁾ \$286,613 ⁽⁴⁾

Notes:

- (1) Based on original contract amount plus or minus any change orders and/or final quantity adjustments.
- (2) Represents the amount requested for funding in this application. Excludes \$257,926 funded in the District's first bond issue. Remaining construction costs of \$501,352 may be requested in a future application.
- (3) Excludes \$898,806 for amenity related excavation.
- (3) Represents the amount requested for funding in this application. Remaining construction costs of \$4,450,793 may be requested in a future application.

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

Facilities to be Constructed

None.

Inspection

The District was inspected by the TCEQ's Districts Section on June 19, 2025. The District appeared as represented in the engineering report. District name signs were properly posted.

D. SUMMARY OF COSTS

<u>Construction Costs</u>		<u>District's Share</u> ⁽¹⁾
A. Developer Contribution Items		
1. Samara Lift Station and Force Main	\$	1,390,542
2. Engineering (Item 1)		1,122
3. Samara Detention Pond, Phase 1		286,613
4. Engineering, SWPPP and Geotechnical (Item No. 3)		<u>34,618</u>
Total Developer Contribution Items	\$	1,712,895
B. District Items		
1. Land Costs for Detention Pond 1	\$	1,685,425 ⁽²⁾
2. Land Costs for Detention Pond 2		1,300,185 ⁽³⁾
3. Land Costs for Lift Station		8,056 ⁽⁴⁾
4. Capital Recovery Fees for Samara Section 5		<u>137,410</u> ⁽⁵⁾
Total District Items	\$	3,131,076
 TOTAL CONSTRUCTION COSTS (80.73% of BIR)	\$	 4,843,971
 <u>Non-construction Costs</u>		
A. Legal Fees	\$	150,000 ⁽⁶⁾
B. Fiscal Agent Fees		75,000 ⁽⁷⁾
C. Interest Costs		
1. Capitalized Interest (12 Months at 5.0%)		300,000
2. Developer Interest - Duncan		124,067 ⁽⁸⁾
3. Developer Interest - Friendswood		61,752 ⁽⁸⁾
D. Bond Discount (3%)		180,000
E. Bond Issuance Expenses		29,636
F. Bond Application Report Costs		50,000
G. District Creation Costs		50,174
H. Developer Operating Advances		114,400 ⁽⁹⁾
I. Attorney General Fee (0.10% or \$9,500 Max.)		6,000
J. TCEQ Bond Issuance Fee (0.25%)		<u>15,000</u>
TOTAL NONCONSTRUCTION COSTS	\$	1,156,029
 TOTAL BOND ISSUE REQUIREMENT	\$	 6,000,000

Notes:

- (1) The District has requested a waiver of the 30% developer contribution requirement of 30 TAC Section 293.47.
- (2) Land acquisition cost for 24.15 acres of land for Detention Pond 1 at the rate of \$57,000 per acre based on total purchased price of \$5,029,110 for 88.23 acres, plus \$308,875 in estimated interest.

- (3) Land acquisition cost for 18.63 acres of land for Detention Pond 2 at the rate of \$57,000 per acre based on total purchased price of \$5,029,110 for 88.23 acres, plus \$238,275 in estimated interest.
- (4) Land acquisition cost for 0.1895 acres of land for Lift Station at the rate of \$34,720.89 per acre based on total purchased price of \$14,791,100 for 426 acres, plus \$1,476 in estimated interest.
- (5) Information provided indicates the cost for capital recovery fees are \$5,101 for water and \$2,567 for wastewater, or \$7,668 per ESFC for 64 total ESFCs. The District was reimbursed for approximately 72% of the total ESFCs (46 out of 64 ESFCs) in the previous bond issue. This amount represents the remaining (approximately) 28% for 18 ESFCs.
- (6) According to the contract provided, legal fees are based on 3% of the bonds issued up to \$3,000,000, plus 2% of the next \$3,000,000 to \$10,000,000 in bonds issued, plus 1.75% of the next \$10,000,000 to \$15,000,000 in bonds issued, plus 1.5% of the next \$15,000,000 to \$20,000,000 in bonds issued, plus 1.25% of total amount above \$20,000,000 in bonds issued.
- (7) According to contract provided, fiscal agent fees are based on 1.25% of the bonds issued, with a minimum fee of \$20,000.
- (8) Based on estimated at 5.0% with a proposed funding date of September 8, 2025, with a maximum of five years. The District has requested to reimburse more than two years of interest in accordance with 30 TAC Section 293.50(b).
- (9) Represents operating expenses paid from April 27, 2022, through February 17, 2023.

E. SPECIAL CONSIDERATIONS

1. 30% Developer Contribution Requirement

The District has requested a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(3) based on obtaining a credit enhanced rating on the bonds. By letter dated March 21, 2025, the District's financial advisor has indicated that the District anticipates obtaining a credit enhanced rating on the proposed bond issue, thereby qualifying for the requested waiver. Accordingly, a waiver of the 30% developer contribution requirement can be granted pursuant to 30 TAC Section 293.47(a)(3).

2. Developer Interest for a Period of More Than Two Years

The District has requested approval to reimburse developer interest for a period of more than two years pursuant to 30 TAC Section 293.50(b)(2). The bond issue includes 12 months of capitalized interest. Because the sum of \$300,000 in capitalized interest and \$185,819 in developer interest (\$485,819 total) in this bond issue does not exceed an amount equal to four years interest on the total bond issue (\$1,200,000), the request to reimburse developer interest should be approved pursuant to 30 TAC Section 293.50(b).

F. CONCLUSIONS

1. Based on \$443,700,000 in water, wastewater, and drainage facilities bond approved by the voters on May 1, 2021, and \$3,420,000 in bonds previously approved by the TCEQ and issued by the District for water, wastewater, and drainage facilities, the District has sufficient voter-authorized bonds (\$440,280,000) for the proposed bond issue.
2. Based on the review of the engineering report, plans, specifications, and supporting documents, the bond issue is considered feasible and meets the criteria established by the TCEQ's economic feasibility rules, 30 TAC Section 293.59.
3. The recommendations are made under authority delegated by the Executive Director of the TCEQ.

G. RECOMMENDATIONS

1. Approve the bond issue in the amount of \$6,000,000 in accordance with the recommended summary of costs at a maximum net effective interest rate of 5.18%. Further, direct the District that the bonds are to be sold only upon the District receiving a credit enhanced rating on the bonds as defined in 30 TAC Section 293.47(b).
2. The District's request for a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(3) should be granted if the District receives a credit enhanced rating on the bonds as defined in 30 TAC Section 293.47(b).
3. Approve the District's request to reimburse developer interest for a period of more than two years pursuant to 30 TAC Section 293.50(b).
4. Standard recommendations regarding purchase of facilities, developer interest, consultant fees, surplus proceeds, time of approval, and bond proceeds fee apply.