

# Legal Papers

PERTAINING  
TO

\$3,700,000

REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BONDS,  
SERIES 2016

TRANSCRIPT OF PROCEEDINGS

LAW OFFICES  
MCALL, PARKHURST & HORTON L.L.P.  
600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248

**\$3,700,000**  
**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
**UNLIMITED TAX BONDS,**  
**SERIES 2016**

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**SECRETARY'S CERTIFICATE**

THE STATE OF TEXAS     §  
  §  
COUNTY OF HAYS         §

The undersigned Secretary of the Board of Directors of REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT, hereby certifies as follows:

1.       The Board of Directors of said District convened in REGULAR MEETING, on the 17th day of May, 2016, at 2001 North Lamar Boulevard, Austin, Texas 78705; and the roll was called of the duly constituted officers and members of said Board, to-wit:

Nathan Neese - President  
Vince Terracina - Vice President  
David J. Bosco, Jr. - Secretary  
George Sykes - Assistant Secretary  
Joel DeSpain - Assistant Secretary

and all said persons were present, except David J. Bosco, Jr. and Joel DeSpain thus constituting a quorum. Whereupon, among other business, the following was transacted at said meeting; a written

**RESOLUTION AUTHORIZING APPLICATION TO THE  
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
FOR APPROVAL OF ENGINEERING PROJECT AND  
\$3,700,000 REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
BOND ISSUE**

was duly introduced for the consideration of the Board. It was then duly moved and seconded that said Resolution be passed; and, after due discussion, said motion, carrying with it the adoption of said Resolution, prevailed and carried by the following vote:

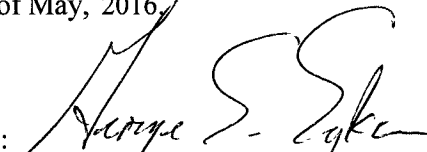
AYES:           3

NOES:           0

2.       That a true, full, and correct copy of the aforesaid Resolution passed at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that said Resolution has been duly recorded in said Board's minutes of said meeting; that the above and foregoing paragraph is a true, full, and correct excerpt from said Board's minutes of said meeting pertaining to the passage of said Resolution; that the persons named in the above and foregoing paragraphs are duly chosen, qualified, and acting officers and members of said Board as indicated therein; that each of the officers and members of said Board was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and that said Resolution would be introduced and considered for passage at said meeting, and each of said officers and members consented, in advance, to the holding of said meeting for such purpose;

that said meeting was open to the public as required by law; and that public notice of the time, place, and subject of said meeting was given as required by Chapter 551, Government Code, and Sec. 49.063, Water Code.

**SIGNED AND SEALED** the 17th day of May, 2016.

By:   
**Assist.** Secretary, Board of Directors

[DISTRICT SEAL]

**RESOLUTION AUTHORIZING APPLICATION TO THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY FOR APPROVAL OF ENGINEERING PROJECT AND \$3,700,000 REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT BOND ISSUE**

STATE OF TEXAS           §  
  §  
COUNTY OF HAYS         §

WHEREAS, Reunion Ranch Water Control and Improvement District (the "District") has been legally created and its Board of Directors have met and organized; and

WHEREAS, the Board of Directors desire to issue \$3,700,000 in bonds to finance acquisition and construction of improvements to its water, wastewater and drainage system within the District; and

WHEREAS, Section 49.181, Texas Water Code, requires the District, when it desires to issue bonds, to submit in writing to the Texas Commission on Environmental Quality (the "Commission"), an application for investigation of the proposed project and of the issuance of the bonds to finance such project, together with a copy of the engineer's report and data, profiles, maps, plans and specifications and market information prepared in connection therewith; and

WHEREAS, the Board of Directors desire to secure the approval and consent of the Commission for the construction of the aforementioned facilities, which are more completely described in the engineer's report and supplemental information submitted in connection with this application, and for the issuance of the bonds described in Section 1(2) of this Resolution.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT THAT:

Section 1. The President and/or Vice President and Secretary and/or Assistant Secretary of the Board of Directors are authorized and directed as follows:

- (1) to make an application to the Commission for an investigation and report of the feasibility of the District acquiring capacity in the systems of the District's wholesale water and wastewater providers, and that portion of improvements to the water, wastewater and drainage system described in the engineering report entitled "Reunion Ranch WCID Bond Issue No. 2" prepared by Murfee Engineering, Inc., consulting engineers, in connection with this application and any supplemental information, for such project to consist generally of improvements to the District's water, wastewater and drainage systems to serve the District, water and wastewater capacity LUE fees and related expenses; and to request the Commission to approve the bonds of the District in the principal amount of \$3,700,000 bearing interest at a net effective interest rate not to exceed the maximum allowed by law, and maturing serially in accordance with the schedule provided in the aforesaid engineering report; and

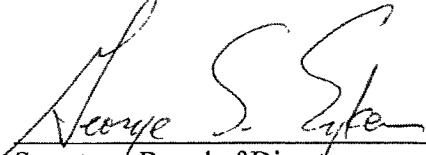
- (2) to request the Commission to waive the requirements of the developer's 30% contribution and a market study by reason of the fact that, after issuance of the bonds, the District's certified assessed valuation for 2015 will exceed 10 times that of the District's outstanding bonds; and
- (3) to request the Commission to approve developer interest reimbursement for all projects for up to five (5) years.

Section 2. By this application the District assures the Commission that it will abide by the terms and conditions prescribed by the Commission, and it will retain all amounts required by law due all construction contractors on the project to assure that the project is completed in accordance with the approved plans and specifications.

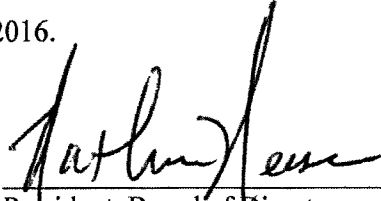
Section 3. The President and/or Vice President and the Secretary and/or Assistant Secretary of the Board of Directors, the District's attorney, Willatt & Flickinger, PLLC, the District's engineer, Murfee Engineering, Inc., and the District's financial advisor, Specialized Public Finance Inc., are authorized and directed to do any and all things necessary and proper in connection with this application.

Section 4. A certified copy of this Resolution shall constitute an application and request on behalf of the District to the Commission pursuant to Section 49.181, Texas Water Code, for approval of the project described in Section 1(1) and of the bonds described in Section 1(2).

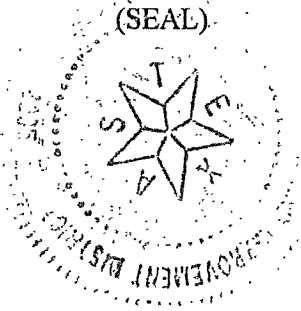
PASSED AND APPROVED this May 17, 2016.



Assist. Secretary, Board of Directors



President, Board of Directors







**SECRETARY’S CERTIFICATE**

THE STATE OF TEXAS            §  
  §  
COUNTY OF HAYS               §

The undersigned officer of the Board of Directors of REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT, hereby certifies as follows:

1. The Board of Directors of said District convened at a SPECIAL MEETING, on the 7<sup>th</sup> day of September, 2016, at 2001 North Lamar Boulevard, Austin, Texas 78705; and the roll was called of the duly constituted officers and members of said Board, to-wit:

- Nathan Neese - President
- Vince Terracina - Vice President
- David J. Bosco, Jr. - Secretary
- George Sykes - Assistant Secretary
- Mike Ehrhardt - Assistant Secretary

and all said persons were present, thus constituting a quorum. Whereupon, among other business, the following was transacted at said meeting; a written

**REVISED**  
**RESOLUTION AUTHORIZING APPLICATION TO THE**  
**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**  
**FOR APPROVAL OF ENGINEERING PROJECT AND**  
**\$3,700,000 REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
**BOND ISSUE**


was duly introduced for the consideration of the Board. It was then duly moved and seconded that said Resolution be passed; and, after due discussion, said motion, carrying with it the adoption of said Resolution, prevailed and carried by the following vote:

AYES:                   5  
NOES:                   0

2. That a true, full, and correct copy of the aforesaid Resolution passed at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that said Resolution has been duly recorded in said Board’s minutes of said meeting; that the above and foregoing paragraph is a true, full, and correct excerpt from said Board’s minutes of said meeting pertaining to the passage of said Resolution; that the persons named in the above and foregoing paragraphs are duly chosen, qualified, and acting officers and members of said Board as indicated therein; that each of the officers and members of said Board was duly

and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and that said Resolution would be introduced and considered for passage at said meeting, and each of said officers and members consented, in advance, to the holding of said meeting for such purpose; that said meeting was open to the public as required by law; and that public notice of the time, place, and subject of said meeting was given as required by Chapter 551, Government Code, and Sec. 49.063, Water Code.

**SIGNED AND SEALED** the 7<sup>th</sup> day of September, 2016.

By:   
David Bosco, Jr., Secretary  
Reunion Ranch WCID

[DISTRICT SEAL]

**REVISED**  
**RESOLUTION AUTHORIZING APPLICATION TO THE**  
**TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**  
**FOR APPROVAL OF ENGINEERING PROJECT AND**  
**\$3,700,000 REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
**BOND ISSUE**

STATE OF TEXAS           §  
  §  
COUNTY OF HAYS         §

WHEREAS, Reunion Ranch Water Control and Improvement District (the "District") has been legally created and its Board of Directors have met and organized; and

WHEREAS, the Board of Directors desire to issue \$3,700,000 in bonds to finance acquisition and construction of improvements to its water, wastewater and drainage system within the District; and

WHEREAS, Section 49.181, Texas Water Code, requires the District, when it desires to issue bonds, to submit in writing to the Texas Commission on Environmental Quality (the "Commission"), an application for investigation of the proposed project and of the issuance of the bonds to finance such project, together with a copy of the engineer's report and data, profiles, maps, plans and specifications and market information prepared in connection therewith; and

WHEREAS, the Board of Directors desire to secure the approval and consent of the Commission for the construction of the aforementioned facilities, which are more completely described in the engineer's report and supplemental information submitted in connection with this application, and for the issuance of the bonds described in Section 1(2) of this Resolution.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT THAT:

Section 1. The President and/or Vice President and Secretary and/or Assistant Secretary of the Board of Directors are authorized and directed as follows:

- (1) to make an application to the Commission for an investigation and report of the feasibility of the District acquiring capacity in the systems of the District's wholesale water and wastewater providers, and that portion of improvements to the water, wastewater and drainage system described in the engineering report entitled "Reunion Ranch WCID Bond Issue No. 2" prepared by Murfee Engineering, Inc., consulting engineers, in connection with this application and any supplemental information, for such project to consist generally of improvements to the District's water, wastewater and drainage systems to serve the District, water and wastewater capacity LUE fees and related expenses; and

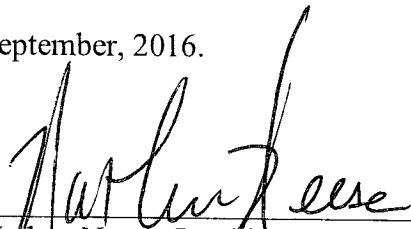
- (2) to request the Commission to approve the bonds of the District in the principal amount of \$3,700,000 bearing interest at a net effective interest rate not to exceed the maximum allowed by law, and maturing serially in accordance with the schedule provided in the aforesaid engineering report; and
- (3) to request the Commission to waive the requirements of the developer's 30% contribution and a market study by reason of the fact that, after issuance of the bonds, the District's certified assessed valuation for 2016 will exceed 10 times that of the District's outstanding bonds; and
- (4) to request the Commission to approve developer interest reimbursement for all projects for up to five (5) years; and
- (5) to request the Commission to approve the use of surplus bond funds in the amount of \$389,285.

Section 2. By this application the District assures the Commission that it will abide by the terms and conditions prescribed by the Commission, and it will retain all amounts required by law due all construction contractors on the project to assure that the project is completed in accordance with the approved plans and specifications.

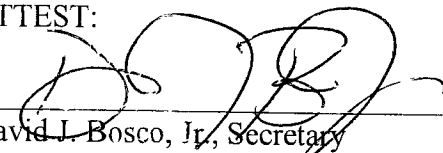
Section 3. The President and/or Vice President and the Secretary and/or Assistant Secretary of the Board of Directors, the District's attorney, Willatt & Flickinger, PLLC the District's engineer, Murfee Engineering Company, Inc., and the District's financial advisor, Specialized Public Finance Inc., are authorized and directed to do any and all things necessary and proper in connection with this application.

Section 4. A certified copy of this Resolution shall constitute an application and request on behalf of the District to the Commission pursuant to Section 49.181, Texas Water Code, for approval of the project described in Section 1(1) and of the bonds described in Section 1(2).

**PASSED AND APPROVED** this 7<sup>th</sup> day of September, 2016.


  
\_\_\_\_\_  
Nathan Neese, President  
Reunion Ranch WCID

ATTEST:

  
\_\_\_\_\_  
David J. Bosco, Jr., Secretary  
Reunion Ranch WCID  
(SEAL)

## BOOKKEEPER'S STATEMENT

The undersigned bookkeeper for Reunion Ranch Water Control and Improvement District states that the District currently has on hand surplus bond proceeds in the amount of \$389,285 available for the purposes of the foregoing resolution. These surplus bond proceeds were generated by the fact that the actual interest rate on the bonds was less than that projected in the application to the TCEQ for bond approval.

By:   
Ashlee Martin, Bookkeeper

# 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

OCT 25 2016

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 (1) AN ENGINEERING PROJECT AND THE ISSUANCE OF \$3,700,000 IN UNLIMITED TAX BONDS, AND (2) THE USE OF \$389,285 IN SURPLUS FUNDS, FOR REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT OF HAYS COUNTY

An application by Reunion Ranch Water Control and Improvement District of Hays County (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 issuance of \$3,700,000 in bonds and the use of \$389,285 in surplus funds to finance: Wastewater Treatment Plant (WWTP) costs; and water, wastewater and drainage facilities to serve single-family development within Reunion Ranch Phases 1B and 1C. 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 June 24, 2016, for approval of a proposed engineering project and the issuance of \$3,700,000 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 August 3, 2016, and a memorandum was prepared on the project dated October 5, 2016, a copy of which is attached and made a part hereof.
4. The District's project and issuance of \$3,700,000 in bonds at a maximum net effective interest rate of 4.95% to finance the project should be approved.
5. The request for a waiver of the 30% developer contribution requirement should be granted in accordance with 30 TEX. ADMIN. CODE § 293.47(a)(1).
6. The request for approval to use \$389,285 in surplus funds as shown in the summary of costs to reduce the bond issue requirement should be granted.
7. The request to reimburse developer interest for a period of more than two years should be granted pursuant to 30 TEX. ADMIN. CODE § 293.50(b).
8. 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 this Order; 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 in accordance with 30 TEX. ADMIN. CODE § 293.69.

9. 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 cost are authorized District expenditures and in accordance with 30 TEX. ADMIN. CODE § 293.50 before reimbursement to the developer is made.

10. 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.

11. 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 of the TCEQ has investigated the District, and the TCEQ has found it legally organized and feasible.

3. The Districts Section's memorandum, dated October 5, 2016, 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 October 5, 2016, on this engineering project and bond issue is adopted as the written TCEQ project report. Pursuant to TEX. WATER CODE § 49.181, the engineering project for Reunion Ranch Water Control and Improvement District of Hays County is hereby approved together with the issuance of \$3,700,000 in bonds at a maximum net effective interest rate of 4.95%. The request for a waiver of the 30% developer contribution requirement is granted in accordance with 30 TEX. ADMIN. CODE § 293.47(a)(1). The request for approval to use \$389,285 in surplus funds as shown in the summary of costs to reduce the bond issue requirement is granted. The request to reimburse developer interest for a period of more than two years is granted in accordance with 30 TEX. ADMIN. CODE § 293.50. 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 this Order; 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 in accordance with 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 of 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 (7<sup>th</sup>) business day after receipt of the bond proceeds. The fees shall be paid by check payable to the Texas Commission on Environmental Quality.

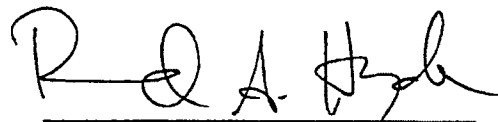
BE IT FURTHER ORDERED that to enable the TCEQ to carry out the responsibilities imposed by TEX. WATER CODE §§ 49.181-182, the District shall (1) furnish the Districts Section copies of all bond issue project construction documentation outlined under 30 TEX. ADMIN. CODE § 293.62, including detailed progress reports and as-built plans required by TEX. WATER CODE § 49.277(b), which have 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: **October 17, 2016**

  
\_\_\_\_\_  
For the Commission

# Texas Commission on Environmental Quality

## TECHNICAL MEMORANDUM

To: Cari-Michel La Caille, Director  
Water Supply Division *CMW 10/10/16* Date: October 5, 2016

Thru: Tom Glab, P.E., Team Leader  
Districts Bond Team *TG 10/6/16*

From: Sandra Sandoval  
Districts Bond Team *SS 10/6/16*

Subject: Reunion Ranch Water Control and Improvement District of Hays County;  
Application for Approval of \$3,700,000 Unlimited Tax Bonds, Second Issue, 4.95%  
Net Effective Interest Rate, Series 2016; Pursuant to Texas Water Code Section  
49.181; and the Use of \$389,285 in Surplus Funds.  
TCEQ Internal Control No. D-06242016-053 (TC)  
CN: 602803652 RN: 104557327

### A. GENERAL INFORMATION

Reunion Ranch Water Control and Improvement District of Hays County (District) submitted an application requesting Texas Commission on Environmental Quality (TCEQ) approval of the issuance of \$3,700,000 in unlimited tax bonds to finance the following:

1. Wastewater Treatment Plant (WWTP) costs; and
2. Water, wastewater and drainage facilities serving the following development within the District:

<u>Development</u>	<u>Type of Development</u>	<u>Acreage</u>	<u>Existing ESFCs<sup>(1)</sup></u>	<u>Ultimate ESFCs</u>
Reunion Ranch Phase 1B	Single-Family	4.68	21	22
Reunion Ranch Phase 1C	Single-Family	7.27	28	28
Reunion Ranch Phase 1C	Common Area	<u>10.67</u>	<u>1</u>	<u>1</u>
Totals		22.62	50	51

#### Notes:

- (1) Equivalent single-family connections as of December 2015, as stated in the engineering report.

The District's previous bond issues funded utilities to serve 73 equivalent single-family connections (ESFCs) on 90.21 acres. Including this bond issue, the District will have funded utilities to serve 125 ESFCs (including 1 ESFC for a WWTP) on 112.83 acres. According to the engineering report and based on a current District area of 523.97 acres, the District's ultimate development is projected to serve 572 ESFCs on 309.25 developable acres.

## B. ECONOMIC ANALYSIS

### Tax Rate Analysis

The feasibility of this bond issue is based on the existing 135 ESFCs as of December 2015, and no-growth to an April 19, 2016, estimated taxable assessed valuation of \$72,147,640. A market study has not been provided, and is not required since the feasibility is based on no-growth.

According to a Hays Central Appraisal District certificate, the District's April 19, 2016, estimated taxable assessed valuation is \$72,147,640. The annual debt service requirements for a proposed bond amount of \$3,700,000 and existing debt averages \$477,035 for the 25-year life of the District's bond debt. According to the engineering report, the District levied a maintenance tax of \$0.775 in 2015 and is projecting to levy a maintenance tax of \$0.31 in the future.

The District's financial advisor submitted a cash flow schedule considering the requested \$3,700,000 bond issue, no-growth to a projected April 19, 2016, taxable assessed valuation of \$72,147,640, twenty-four months of capitalized interest, a bond interest rate of 4.75 %, a 3% bond discount, a 95% collection rate, and a projected tax rate of \$0.66 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	\$0.67 <sup>(1)(2)</sup>
Maintenance Tax	<u>\$0.31</u>
Total District Taxes	\$0.98 <sup>(3)</sup>

#### Notes:

- (1) Based on a net effective interest rate of 4.95%, a 95% tax collection rate, no-growth to an April 19, 2016, estimated taxable assessed valuation of \$72,147,640, 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 of at most \$0.67 per \$100 assessed valuation.
- (3) 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 \$0.98 per \$100 assessed valuation being less than \$1.20, pursuant to 30 TAC Sections 293.59(l) and 293.59(k)(11)(C).

## C. ENGINEERING ANALYSIS

### Water Supply

The District's source of water is potable (raw) water provided by the West Travis County Public Utility Authority (WTCPUA). The Authority obtains its water sources from the Lower Colorado River Authority (LCRA).

Pursuant to the "Water Services Agreement," dated March 31, 2003, the LRCA, which transferred ownership to WTCPUA, has agreed to provide up to 553,000 gpd (480 ESFCs) of water to the District.

The existing water supply facilities appear adequate to serve the 135 ESFCs upon which the feasibility of this bond issue is based.

Wastewater Treatment

Wastewater treatment for the District is provided by a WWTP, owned by the District, with a maximum authorized disposal flow of 0.050 MGD. Pursuant to the Texas Pollutant Discharge Elimination System Permit No. WQ0014480001, the District is authorized for a discharge of 0.050 MGD, with disposal via drip irrigation. Based on a design factor of 300 gpd/ESFC, the District can serve the existing 135 ESFCs upon which the feasibility of this bond issue is based.

Storm Water Drainage

Storm water within the District generally drains via natural drainage channels, curb inlet to storm drain and roadside swale with street and driveway culverts and ribbon curb which outfall into unnamed tributaries and to Bear Creek which flow toward the Colorado River.

Purchase of Existing Facilities/Assumption of Contracts

<u>Project</u>	<u>Contractor</u>	<u>% Completion (Date)</u>	<u>Contract Amount</u>	<u>Amt. Subj. to Distr. Contrib.</u>
Reunion Ranch Phase 1A - WWTP	Wastewater Operations, Ltd.	100% (03/2013)	\$2,039,674 <sup>(1)</sup>	\$2,039,674
Reunion Ranch Phase 1B - W, WW & D	DNT Construction, LLC	100% (04/2014)	\$678,631 <sup>(2)</sup>	\$483,414 <sup>(3)</sup> \$384,583 <sup>(4)</sup>
Reunion Ranch Phase 1C - W, WW & D	DNT Construction, LLC	100% (05/2014)	\$296,167 <sup>(5)</sup>	\$249,667 <sup>(6)</sup>

Notes:

- (1) Based on original contract amount (\$1,879,112) plus change order Nos. 1 - 4.
- (2) Based on original contract amount (\$587,445) plus change order Nos. 1 - 2 and final quality adjustments.
- (3) Excludes \$114,787 for developer's 50% share of clearing and rough cut expenses and \$80,430 for ineligible culvert crossings.
- (4) Represents amount requested in this bond issue. The remaining \$98,831 may be requested for funding in a future application.
- (5) Based on original contract amount (\$280,702) plus change order Nos. 1 - 2 and final quantity adjustments.
- (6) Excludes \$46,500 for developer's 50% share of clearing and rough cut expenses.

Facilities to be Constructed

None

Inspection

The District was inspected by a member of the TCEQ's Districts Section on August 3, 2016. The District appeared as represented in the engineering report. Streets and utilities appeared to be complete within Reunion Ranch Phase 1A, 1B and 1C. District name signs were properly posted.

**D. SUMMARY OF COSTS**

Construction Costs

	<u>Amount</u> <sup>(1)</sup>
A. Developer Contribution Items	
1. Reunion Ranch Phase 1B - W, WW & D	\$ 384,583
2. Reunion Ranch Phase 1C - W, WW & D	249,667
3. Engineering (15.00% of item No. 1- 2)	<u>95,137</u>
Total Developer Contribution Items	\$ 729,387
B. District Items	
1. Reunion Ranch Phase 1A - WWTP	\$ 2,039,674
2. Engineering (15.00% for item No. 1)	<u>305,951</u>
Total District Items	\$ 2,345,625
TOTAL CONSTRUCTION COSTS (80.41% of Bond Issue)	\$ 3,075,012
Available Surplus Funds Balance	(389,285) <sup>(2)</sup>
Net Construction Costs (72.59% of BIR)	\$ 2,685,727

Nonconstruction Costs

A. Legal Fees (1.25%)	\$ 46,250 <sup>(3)</sup>
B. Fiscal Agent Fees (1.5%)	55,500 <sup>(4)</sup>
C. Interest	
1. Capitalized Interest	216,239
2. Developer Interest	486,761 <sup>(5)</sup>
D. Bond Discount (3%)	111,000
E. Bond Issuance Expenses	35,573
F. Bond Application Report Costs	50,000
G. Attorney General Fee (0.10% or \$9,500 max.)	3,700
H. TCEQ Bond Issuance Fee (0.25%)	<u>9,250</u>
TOTAL NONCONSTRUCTION COSTS (30.12% of BIR)	\$ 1,014,273
TOTAL BOND ISSUE REQUIREMENT	\$ 3,700,000

Notes:

- (1) The District has requested a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47.
- (2) Recommended for approval as discussed in Special Consideration No. 2.
- (3) According to contract provided, legal fees are based on 1.25% of bonds issued with a minimum fee of \$25,000.
- (4) According to contract provided, fiscal fees are based on 1.75% of bonds issued for the first issuance of debt, and 1.5% of the bonds issued for additional issuances.
- (5) Estimated at 4.75% with a proposed funding date of November 1, 2016. The District has requested to reimburse more than two years interest in accordance with 30 TAC Section 293.50(a).

**E. SPECIAL CONSIDERATIONS**

1. 30% Developer Contribution and Market Study Requirement

The District has requested a waiver of the 30% developer contribution requirement (30 TAC Section 293.47) pursuant to 30 TAC Section 293.47(a)(1) based on the District having a debt to assessed valuation ratio of 10% or less. The District's existing (\$3,500,000) and proposed (\$3,700,000) debt sum to \$7,200,000. The District has provided a certificate from the Hays Central Appraisal District indicating an estimated assessed valuation of \$72,147,640 as of April 19, 2016; therefore, its debt to assessed valuation ratio is 9.98%. The District's request for a waiver of the 30% developer contribution requirement can be granted pursuant to 30 TAC 293.47(a)(1).

The District has also requested a waiver of the market study requirement associated with this bond issue. Since the feasibility of the bond issue is based on no-growth, the District is exempt from the market study requirement, and granting a waiver is unnecessary.

## 2. Surplus Funds

The District's board resolution requesting approval of the \$3,700,000 bond issue also included a request for Commission approval of the use of \$389,285 in surplus funds to finance a portion of the projects. A letter from the District's bookkeeper has been received stating that the District has a surplus funds balance of \$389,285. Commission staff recommends approval of the requested use of \$389,285 in surplus funds to finance a portion of the projects as presented in the cost.

## 3. 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). Staff recommends approval because the developer (\$486,761) and capitalized (\$216,939) interest in this bond issue does not exceed an amount equal to four years interest on the total bond issue.

## F. CONCLUSIONS

1. Based on \$30,000,000 in bonds approved by voters and \$3,500,000 previously approved by the TCEQ and issued by the District, the District has sufficient voter-authorized bonds (\$26,500,000) 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 \$3,700,000 in accordance with the recommended summary of costs, at a maximum net effective interest rate of 4.95%.
2. Grant a waiver of the 30% developer contribution requirement pursuant to 30 TAC Section 293.47(a)(1).
3. Approve the use of \$389,285 in surplus funds as shown in the summary of costs to reduce the bond issue requirement.
4. Approve the District's request to reimburse the developer for a period of more than two years pursuant to 30 TAC Section 293.50 (b).
5. Standard recommendations regarding purchase of facilities, developer interest, consultant fees, surplus proceeds, time of approval, and bond proceeds fee apply.

## **TCEQ Interoffice Memorandum**

---

**To:** Seyed Miri, Team Leader, Utilities and Districts Section  
Tom Glab, Team Leader, Utilities and Districts Section

**Thru:** Shawn Stewart, Water Program Work Leader, Austin Region Office

**From:** Michael Daniels, P.E., Environmental Investigator, Austin Region Office

**Date:** October 17, 2016

**Subject:** **Request for Pre-Purchase Inspection, Reunion Ranch WCID of Hays County, \$3,700,000 Bond Issue #2**

On October 11, 2016, a pre-purchase inspection was conducted regarding the above request. Mr. Dennis Lozano, P.E., and Mr. Bryce Canady, P.E., with Murfee Engineering Company participated. The facilities consist of:

1. Reunion Ranch WWTP,
2. Reunion Ranch Phase 1B (Water, Wastewater and Drainage), and
3. Reunion Ranch Phase 1C (Water, Wastewater and Drainage).

Aboveground water, wastewater and drainage facilities serving Sections 1B and 1C were observed including fire hydrants, valve box covers, stormwater headwalls, curbs, curb inlets, manhole covers, flow spreaders, wastewater treatment plant, and effluent disposal fields. The facilities appeared to correspond with the plans provided with no construction deficiencies noted. If you or members of your staff have any questions, please contact me at the Austin Region Office at (512) 339-2929 or at [michael.daniels@tceq.texas.gov](mailto:michael.daniels@tceq.texas.gov)

Sincerely,



Michael Daniels, P.E.  
Environmental Investigator  
Water Program  
TCEQ Austin Region Office

cc: Mr. Dennis Lozano, P.E., and Mr. Bryce Canady, P.E., Murfee Engineering Company (email)





consented, in advance, to the holding of the Meeting for such purpose; that the Meeting was open to the public and public notice of the time, place and purpose of the Meeting was given, all as required by Chapter 551, Government Code, as amended and Section 49.064, Texas Water Code, as amended.

**SIGNED AND SEALED** this 15<sup>th</sup> day of November, 2016.

  
Secretary, Board of Directors

  
President, Board of Directors

(SEAL)

:

**ORDER AUTHORIZING THE ISSUANCE OF \$3,700,000 REUNION RANCH WATER  
CONTROL AND IMPROVEMENT DISTRICT UNLIMITED TAX BONDS, SERIES  
2016; LEVYING AN AD VALOREM TAX IN SUPPORT OF THE BONDS;  
APPROVING AN OFFICIAL STATEMENT; AUTHORIZING THE EXECUTION OF A  
PAYING AGENT/REGISTRAR AGREEMENT; AWARDING THE SALE OF THE  
BONDS; AND AUTHORIZING OTHER MATTERS RELATED TO THE ISSUANCE OF  
THE BONDS**

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**ORDER AUTHORIZING THE ISSUANCE OF \$3,700,000 REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT UNLIMITED TAX BONDS, SERIES 2016; LEVYING AN AD VALOREM TAX IN SUPPORT OF THE BONDS; APPROVING AN OFFICIAL STATEMENT; AUTHORIZING THE EXECUTION OF A PAYING AGENT/REGISTRAR AGREEMENT; AWARDED THE SALE OF THE BONDS; AND AUTHORIZING OTHER MATTERS RELATED TO THE ISSUANCE OF THE BONDS**

**THE STATE OF TEXAS §**  
**COUNTY OF HAYS §**  
**REUNION RANCH WATER CONTROL AND §**  
**IMPROVEMENT DISTRICT §**

**WHEREAS**, Reunion Ranch Water Control and Improvement District (the "District"), was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated August 15, 2005 as a conservation and reclamation district created under and essential to accomplish the purposes of Section 59, Article XVI of the Texas Constitution; and

**WHEREAS**, the District currently operates pursuant to Chapters 49 and 51, Texas Water Code, as amended; and

**WHEREAS**, at an election held on November 6, 2012, the voters of the District confirmed creation of the District, authorized a maintenance tax not to exceed \$1.00 per \$100 valuation and approved the issuance of bonds (the "Bond Election") in one or more issues or series in the maximum amount of \$30,000,000 maturing serially or otherwise in such installments as are fixed by said board over a period or periods not exceeding forty (40) years from their date or dates, bearing interest at any rate or rates and to sell said bonds at any price or prices, provided that the net effective interest rate shall not exceed the maximum legal limit in effect at the time of issuance of each issue or series of bonds, all as may be determined by the Board of Directors of said District, for the purpose or purposes of purchasing, constructing, acquiring, owning, operating, repairing, improving, extending, or paying for inside and outside the District's boundaries, any District works, improvements, facilities, plants, equipment, appliances and all costs associated with flood plain and wetlands regulation and endangered species and stormwater permits, including mitigation, needed to accomplish the purposes of the District authorized by the Texas Constitution, the Texas Water Code or any other law as now or hereinafter enacted, including the works, improvements, facilities, plants, equipment and appliances to provide a waterworks system, sanitary sewer system, wastewater system, drainage, storm sewer and water quality system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor, administration, interest and operating costs during creation and construction and administrative facilities needed in connection therewith, and to provide for the payment of principal of and interest on such bonds by the levy and collection of a sufficient tax



upon all taxable property within aid District, all as now or hereafter authorized by the Constitution and laws of the state of Texas; and

**WHEREAS**, by order signed on October 17, 2016 (the "Commission Order"), the Commission approved the issuance by the District of \$3,700,000 principal amount of bonds upon the terms and conditions outlined in the Commission Order; and

**WHEREAS**, the Board of Directors of the District deems it necessary and advisable at this time to issue \$3,700,000 of bonds for the purposes set forth in the Commission Order pursuant to Chapters 49 and 51 of the Texas Water Code utilizing part of the voted authorization of the District from the Bond Election and reserving the right in the future to issue the remaining \$22,800,000 of new money bonds authorized at the Bond Election.

**THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT:**

## **ARTICLE ONE**

### **PREAMBLE**

**SECTION 1.01 INCORPORATION OF PREAMBLE.** The Board of Directors of the District hereby incorporates the recitals set forth in the preamble hereto as if set forth in full at this place and further finds and determines that the recitals are true and correct.

## **ARTICLE TWO**

### **DEFINITIONS AND INTERPRETATIONS**

**SECTION 2.01. DEFINITIONS.** When used in this Bond Order, except in Article Six, and in any resolution or order amendatory or supplemental hereto, the terms listed below shall have the meanings specified below, unless it is otherwise expressly provided or unless the context otherwise requires:

"Additional Bonds" means the additional bonds payable from ad valorem taxes which the Board expressly reserves the right to issue in Article 11 of this Bond Order.

"Authorized Investments" means authorized investments as set forth in the Public Funds Investment Act, Chapter 2256, Texas Government Code and the District's Investment Policy.

"Board of Directors" or "Board" means the governing body of the District.

"Bonds" means the Bonds initially issued and delivered pursuant to this Bond Order and all substitute Bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

"Bond Order" or "Order" means this Bond Order of the Board of Directors authorizing the issuance of the Bonds.

"Commission" means the Texas Commission on Environmental Quality and any successors or assigns.

"Commission Order" means the order of the Commission signed October 17, 2016 approving the issuance of the Bonds upon the terms and conditions as outlined in such order.

"Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent, and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds.

"District" means Reunion Ranch Water Control and Improvement District and any other public agency succeeding to the powers, rights, privileges, and functions of the District and, when appropriate, the Board of Directors of the District.

"DTC" means The Depository Trust Company of New York.

"Exchange Bonds" means Bonds registered, authenticated, and delivered by the Registrar, as provided in Section 4.01 of this Bond Order.

"Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

"Fiscal Year" means the twelve-month accounting period for the District, which presently is the twelve-month period beginning on October 1 of each year and ending on September 30 of the following year, but which may be changed from time to time by the Board of Directors.

"Initial Bond" means the Bond authorized, issued, and initially delivered as provided in Section 3.02 of this Bond Order.

"Initial Purchaser(s)" means the persons identified in Section 15.01 of this Bond Order as the initial purchasers of the Bonds.

"Interest Payment Date" means a date on which interest on the Bonds is due and payable. Interest on the Bonds is due and payable on August 15, 2017, and semi-annually on each February 15 and August 15 thereafter until the earlier of maturity or redemption.

"MSRB" means the Municipal Securities Rulemaking Board.

"Record Date" means the last calendar day of the month next preceding each Interest Payment Date, whether or not such dates are business days.

"Redemption Date" means a date fixed for redemption of any Bond pursuant to the terms of this Bond Order.

"Register" means the registry system maintained on behalf of the District by the Registrar in which are listed the names and addresses of the Registered Owners and the principal amount of Bonds registered in the name of each Registered Owner.

"Registered Owner" means any person or entity in whose name a Bond is registered.

"Registrar" or "Paying Agent/Registrar" means BOKF, NA or such other bank, trust company, financial institution, or other entity as may hereafter be designated by the District to act as paying agent and registrar for the Bonds in accordance with the terms of this Bond Order.

"Replacement Bonds" means the Bonds authorized by the District to be issued in substitution for lost, apparently destroyed, or wrongfully taken Bonds as provided in Section 4.02 of this Bond Order.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Record Date" means the new Record Date for the payment of a respective interest payment established by the Paying Agent/Registrar in the event of a non-payment of interest on a scheduled payment date.

"System" means the water system, sanitary sewer system, and drainage and storm sewer system of the District, including, but not limited to, all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and

administrative facilities needed in connection therewith, together with any additional or extensions thereto or improvements and replacements thereof; provided that the System shall not include facilities acquired or constructed to perform contracts between the District and other persons, including private corporations, municipalities and political subdivisions which are financed by proceeds of the District's revenue bonds issued particularly to finance facilities needed to perform such contracts.

**SECTION 2.02. INTERPRETATIONS.** The titles and headings of the articles and sections and the page numbers of this Bond Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Bond Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the taxes levied in payment thereof.

### **ARTICLE THREE**

#### **AUTHORIZATION, REGISTRATION, EXECUTION, AND AUTHENTICATION OF BONDS**

**SECTION 3.01. AMOUNT, NAME, PURPOSE, AND AUTHORIZATION.** Each Bond issued pursuant to this Bond Order shall be known and designated as "Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016" and the Bonds shall be issued in the aggregate principal amount of \$3,700,000 pursuant to the Bond Election and Commission Order for the purposes of financing the District's share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A; (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C; (iii) capitalizing approximately twenty-four months' interest requirements on the Bonds; (iv) paying developer interest; (v) paying certain engineering costs and (vi) paying costs associated with the issuance of the Bonds.

**SECTION 3.02. FORM, DATE, NUMBERS, AND DENOMINATION.** The Bonds shall be issued and delivered in fully registered form without coupons, and may be transferred and exchanged after initial delivery as provided in Article Four of this Bond Order. The Bonds shall be dated and have such other terms as provided in the Form of Bond in Article Six of this Bond Order. There shall be an Initial Bond delivered to the Attorney General and numbered T-1 as provided in the Form of Bond in Article Six of this Bond Order. Bonds registered and delivered by the Registrar subsequent to the Initial Bond shall be numbered by the Registrar R-1 upward and no two Bonds shall be given the same number. The Bonds registered and delivered subsequent to the Initial Bond shall be in principal denominations of \$5,000 or any integral multiple thereof.

**SECTION 3.03. INTEREST RATES AND MATURITIES.** The Bonds scheduled to mature on August 15 during the years, respectively, set forth below shall bear

interest from the dates in the Form of Bond set forth in Article Six of this Bond Order to their respective dates of maturity at the following rates per annum:

<u>Year of Maturity</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
2018	\$ 90,000	3.000%	2029	\$ 145,000	3.625%
2019	95,000	3.000%	2030	155,000	3.750%
2020	95,000	3.000%	2031	160,000	3.750%
2021	100,000	3.000%	2032	170,000	4.000%
2022	105,000	3.000%	2033	175,000	4.000%
2023	110,000	3.000%	2034	185,000	4.000%
2024	115,000	3.000%	***	***	***
2025	125,000	3.125%	2037	585,000	4.125%
2026	130,000	3.375%	***	***	***
2027	135,000	3.500%	2041	885,000	4.250%
2028	140,000	3.500%			

**SECTION 3.04. PAYMENT OF PRINCIPAL AND INTEREST.** The Registrar is hereby appointed as the paying agent 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, upon their presentation and surrender as they become due and payable, whether at maturity or by prior redemption in the case of the Bonds, at the designated office for payment of the Registrar. The interest on each Bond shall be payable as provided in the Form of Bond by check payable on the Interest Payment Date, mailed by the Registrar on or before each Interest Payment Date to the Registered Owner as shown on the Register on the Record Date or, at the request of a Registered Owner, and at the Registered Owner's risk and expense, in such other manner as may be acceptable to the Registered Owner and the Registrar. Any accrued interest payable at maturity or earlier redemption, in the case of the Bonds, shall be paid upon presentation and surrender of the Bond to which such interest appertains.

If the date for payment on any Bond is a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized by law or executive order to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

**SECTION 3.05. SUCCESSOR REGISTRARS.** The District covenants that at all times while any Bonds are outstanding it will provide a bank, trust company, financial institution or other entity duly qualified and duly authorized to act as Registrar for the Bonds. The District reserves the right to change the Registrar on not less than 30 days written notice to the Registrar, so long as any such notice is effective at such time as to not disrupt payment on the next succeeding principal or interest payment date on the Bonds. Promptly upon the appointment of any successor Registrar, the previous Registrar shall deliver the Register or copies thereof to the new Registrar, and the new Registrar shall notify each Registered Owner, by United States mail, first-class postage prepaid, of such change and of the address of the new Registrar. Each Registrar hereunder, by acting in that capacity, shall be deemed to have agreed to the provisions of this Section.

**SECTION 3.06. SPECIAL RECORD DATE.** If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for 30 days thereafter, the Registrar shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Registrar shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the District. Such Special Record Date shall be 15 days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first-class, postage prepaid, not later than 5 days prior to the Special Record Date, to each affected Registered Owner of record as of the close of business on the day prior to the mailing of such notice.

**SECTION 3.07. REGISTERED OWNERS.** The District, the Registrar and any other person may treat the person in whose name any Bond is registered as the absolute Registered Owner of such Bond for the purpose of making payment of principal or interest on such Bond, and for all other purposes, whether or not such Bond is overdue, and neither the District, nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Registered Owner of any Bond in accordance with this Section 3.07 shall be valid and effectual and shall discharge the liability of the District and the Registrar upon such Bond to the extent of the sums paid.

**SECTION 3.08. EXECUTION OF BONDS.** The Bonds shall be signed on behalf of the District by the President or Vice President of the Board of Directors and attested by the Secretary or Assistant Secretary, by their manual, lithographed, or facsimile signatures, and the official seal of the District shall be impressed or placed in facsimile thereon. The facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and the facsimile seal on the Bonds shall have the same effect as if the official seal of the District had been manually impressed upon each of the Bonds. If any officer of the District whose manual or facsimile signature appears on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

**SECTION 3.09. AUTHENTICATION.** The Initial Bond shall bear thereon a certificate of registration of the Comptroller of Public Accounts of the State of Texas, substantially in the form provided in Section 6.02 of this Bond Order, manually executed by the Comptroller or a duly authorized deputy. All other Bonds shall bear a certificate of authentication, substantially in the form provided in Section 6.03 of this Bond Order, manually executed by an authorized officer of the Registrar. No Bond shall be valid or obligatory for any purpose unless either the registration certificate of the Comptroller or the authentication certificate of the Registrar has been signed by a duly authorized officer thereof.

**SECTION 3.10. BOOK-ENTRY-ONLY PROVISIONS.** (a) Book-Entry-Only System. The Bonds issued in exchange for the Initial Bond shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("DTC") and except as provided in subsection (b) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the District and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC participants (the "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown on the Register, of any notice with respect to the Bonds, or (iii) the payment to any DTC Participant or any person, other than a Registered Owner, as shown in the Register of any amount with respect to principal of or interest on the Bonds. Notwithstanding any other provision of this Bond Order to the contrary, but to the extent permitted by law, the District and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Register as the absolute owner of such Bond for the purpose of payment of principal of and interest, with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes of registering transfers with respect to such Bonds, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Bonds only to or upon the order of the respective Registered Owners, as shown in the Register as provided in this Bond Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Registered Owner, as shown in the Register, shall receive a Bond evidencing the obligation of the District to make payments of principal, and interest pursuant to this Bond Order. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a

new nominee in place of Cede & Co., and subject to the provisions in this Bond Order with respect to interest checks being mailed to the registered owner at the close of business on the Record Date the word "Cede & Co." in this Bond Order shall refer to such new nominee of DTC.

(b) Successor Securities Depository; Transfer Outside Book-Entry-Only System. In the event that the District determines to discontinue the book-entry system through DTC or a successor or DTC determines to discontinue providing its services with respect to the Bonds, the District shall either (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the Registered Owner transferring or exchanging Bond shall designate, in accordance with the provisions of this Bond Order.

(c) Payments to Cede & Co. Notwithstanding any other provision of this Bond Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Blanket Issuer Letter of Representations of the District to DTC.

(d) DTC Blanket Letter of Representations. The District confirms execution of a Blanket Issuer Letter of Representations with DTC establishing the Book-Entry-Only System which will be utilized with respect to the Bonds.

(e) Cancellation of Initial Bond. On the closing date, one Initial Bond representing the entire principal amount of the Bonds, payable in stated installments to the order of the Initial Purchaser of the Bonds or its designee set forth in Section 15.01 of this Bond Order, executed by manual or facsimile signature of the President or Vice-President and Secretary or Assistant Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of the State of Texas, will be delivered to such Initial Purchaser or its designee set forth in Section 15.01 of this Bond Order. Upon payment for the Initial Bond, the Registrar shall cancel the Initial Bond and deliver to DTC on behalf of such Initial Purchaser one registered definitive Bond for each year of maturity of the Bonds, in the aggregate principal amount of all the Bonds for such maturity.

## **ARTICLE FOUR**

### **REGISTRATION, TRANSFER, AND EXCHANGE**



**SECTION 4.01. REGISTRATION, TRANSFER, AND EXCHANGE.** So long as any Bonds remain outstanding, the Registrar shall keep at its designated office for payment the Register, in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of this Bond Order.

Each Bond shall be transferable only upon the presentation and surrender thereof at the designated office for payment of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or an authorized representative in form satisfactory to the Registrar. Upon due presentation of any Bond for transfer, the Registrar shall authenticate and deliver in exchange therefor, within 72 hours after such presentation, a new Bond or Bonds of the same type, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount, and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the designated office for payment of the Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Registrar shall be and is hereby authorized to authenticate and deliver exchange Bonds in accordance with the provisions of this Section 4.01. Each Bond delivered in accordance with this Section 4.01 shall be entitled to the benefits and security of this Bond Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The District or the 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 Registrar for such transfer or exchange shall be paid by the District.

**SECTION 4.02. MUTILATED, LOST, OR STOLEN BONDS.** Upon the presentation and surrender to the Registrar of a mutilated Bond, the 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 execute and the Registrar shall authenticate and deliver a replacement Bond of like amount, bearing a number not contemporaneously outstanding.

The District or the Registrar may require the Registered Owner of a mutilated Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including 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 execute and the Registrar shall authenticate and deliver a replacement Bond of like amount, bearing a number not contemporaneously outstanding.

The District or the Registrar may require the Registered Owner of a mutilated Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar. The District or the Registrar may require the Registered Owner of a lost, apparently destroyed or wrongfully taken Bond, before any replacement Bond is issued, to:

(a) furnish to the District and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;

(b) furnish such security or indemnity as may be required by the Registrar and the District to save them harmless;

(c) pay all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and

(d) meet any other reasonable requirements of the District and the Registrar.

If, after the delivery of such replacement Bond, a bona fide purchaser of the original Bond which such replacement Bond was issued presents for payment such original Bond, the District and the Registrar shall be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the District in its discretion may, instead of issuing a replacement Bond, authorize the Registrar to pay such Bond.

Each replacement Bond delivered in accordance with this Section 4.02 shall be entitled to the benefits and security of this Bond Order to the same extent as the Bond or Bonds in lieu of which such replacement is delivered.

**SECTION 4.03. CANCELLATION OF BONDS.** All Bonds paid in accordance with this Bond Order, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated, registered, and delivered in accordance herewith, shall be canceled and destroyed upon the making of proper records regarding such payment, redemption, exchange, or replacement. This Registrar shall furnish the District with appropriate certificates of destruction of such Bonds.

**ARTICLE FIVE**

**REDEMPTION OF BONDS BEFORE MATURITY**

**SECTION 5.01. REDEMPTION OF BONDS.** The District reserves the right, at its option, to redeem the Bonds as set forth in the FORM OF BOND in Section 6.01.

**ARTICLE SIX**

**FORM OF BOND AND CERTIFICATES**

**SECTION 6.01. FORM OF BOND.** The Bonds authorized by this Bond Order shall be in substantially the following Form, with such omissions, insertions, and variations, including variations in form, spacing, and style, as may be necessary and desirable and consistent with the terms of this Bond Order. The District shall provide sufficient printed bond forms, duly executed by the District, to the Registrar for registration, authentication, and delivery of the Bonds in accordance with the provisions of this Bond Order.

**FORM OF BOND**

**UNITED STATES OF AMERICA  
STATE OF TEXAS**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BOND  
SERIES 2016**

**NO. R-1**

**PRINCIPAL  
AMOUNT  
\$ \_\_\_\_\_**

**INTEREST RATE      DATE OF BONDS      MATURITY DATE      CUSIP NO.  
November 15, 2016**

**REGISTERED OWNER:**

**PRINCIPAL AMOUNT:**

**ON THE MATURITY DATE** specified above, Reunion Ranch Water Control and Improvement District (the "District"), being a political subdivision of the State of Texas, hereby

promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "Registered Owner") the principal amount set forth above, and to pay interest thereon calculated on the basis of a 360 day year of twelve 30 day months, from the date of initial delivery of the Bonds, on November 15, 2016, and semiannually on each February 15 and August 15 thereafter (an "Interest Payment Date") to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the Interest Payment Date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date, in which case such principal amount shall bear interest from such next following Interest Payment Date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

**THE PRINCIPAL OF AND INTEREST ON** this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the Registered Owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity at BOKF, NA which is the "Registrar" or "Paying Agent/Registrar" for this Bond at its designated office for payment in Austin, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each Interest Payment Date by check or draft, dated as of such Interest Payment Date, drawn by the Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Registrar by United States mail, first-class postage prepaid, on or before each such Interest Payment Date, to the Registered Owner hereof, at its address as it appeared on the last calendar day of the month (whether or not a business day) next preceding each such date (the "Record Date") on the Register kept by the Registrar listing the names and addresses of the Registered Owners (the "Register"). In addition, interest may be paid by such other method, acceptable to the Registrar, requested by, and at the risk and expense of, the Registered Owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar days after the Special Record Date) shall be sent at least 5 business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Registered Owner as it appears on

the Register at the close of business on the last business day next preceding the date of mailing of such notice.

**DURING ANY PERIOD** in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the District and the securities depository.

**ANY ACCRUED INTEREST** due at maturity or upon the redemption of this Bond prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the Registered Owner of this Bond that on or before each principal payment date, interest payment date, and any redemption date for this Bond it will make available to the Registrar, from the "Debt Service Fund" the creation of which is affirmed by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

**IF THE DATE** for any payment due on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the designated office for payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**THIS BOND** is one of a series of Bonds dated as of November 15, 2016 and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of **\$3,700,000 PURSUANT TO THE BOND ELECTION AND COMMISSION ORDER FOR THE PURPOSE OF FINANCING THE DISTRICT'S SHARE OF: (I) CONSTRUCTION COSTS ASSOCIATED WITH A WASTEWATER TREATMENT PLANT IN REUNION RANCH PHASE 1A; (II) WATER, WASTEWATER AND DRAINAGE FACILITIES TO SERVE SINGLE-FAMILY AND COMMON AREA DEVELOPMENT IN REUNION RANCH PHASE 1B AND 1C; (III) CAPITALIZING APPROXIMATELY TWENTY-FOUR MONTHS' INTEREST REQUIREMENTS ON THE BONDS; (IV) PAYING DEVELOPER INTEREST; (V) PAYING CERTAIN ENGINEERING COSTS AND (VI) PAYING COSTS ASSOCIATED WITH THE ISSUANCE OF THE BONDS.**

**ON AUGUST 15, 2023 OR ON ANY DATE THEREAFTER**, the Bonds maturing on and after August 15, 2024 may be redeemed prior to their scheduled maturities, at the option of the District, with funds derived from any available and lawful source, at a redemption price equal

to the principal amount to be redeemed plus accrued interest to the date fixed for redemption as a whole, or from time to time in part, and, if in part, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity is to be redeemed the Registrar shall determine by lot the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of \$5,000 of principal amount).

**THE BONDS MATURING ON** August 15, 2037 and August 15, 2041 are subject to mandatory sinking fund redemption by lot prior to maturity in the following amounts on the following dates and at a price of par plus accrued interest to the redemption date ("Term Bonds").

**Term Bonds Maturing on August 15, 2037\***

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2035	\$ 190,000
August 15, 2036	195,000
August 15, 2037	200,000

\*Stated Maturity

**Term Bonds Maturing on August 15, 2041\***

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2038	\$ 205,000
August 15, 2039	210,000
August 15, 2040	215,000
August 15, 2041	255,000

\*Stated Maturity

**THE PRINCIPAL AMOUNT** of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

**AT LEAST 30** calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Registrar by United States mail, first-class postage prepaid, to the Registered Owner of each Bond to be redeemed at its address as it appeared on the Register on the 45th calendar day prior

to such redemption date at least 30 days prior to the date fixed for redemption and to major securities depositories and bond information services. By the date fixed for any such redemption due provision shall be made with the Registrar for the payment of the required redemption price for the Bonds or portions for which such payment is made, all as provided above. The Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the Registered Owner to receive the redemption price from the Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any authorized denomination or denominations, at the written request of the Registered Owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the District, all as provided in the Bond Order.

**WITH RESPECT TO** any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice shall state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**ALL BONDS OF THIS SERIES** are issuable solely as fully registered Bonds, without interest coupons, in the principal denomination in the case of the Bonds, of any integral multiple of \$5,000. As provided in the Bond Order, this Bond may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate Registered Owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the Registered

Owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the Registered Owner. The Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Registrar shall not be required to make any such transfer, conversion or exchange of any Bond or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or Interest Payment Date or (ii) within 45 calendar days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the Registered Owner of the unredeemed balance hereof in the event of its redemption in part.

**WHENEVER** the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

**IN THE EVENT** any Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the Registered Owners of the Bonds.

**THE BONDS** are payable from the proceeds of an ad valorem tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts. The Bond Order further provides that the pledge of taxes, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or Defeasance Securities are deposited with or made available to the Registrar in accordance with the Bond Order or (ii) a city dissolves the District, and assumes the obligations of the District pursuant to existing Texas law.

**THE BONDS** are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date with respect to the Bonds, and to pay the expenses of assessing and collecting such tax, all as



more specifically provided in the Bond Order. Reference is hereby made to the Bond Order for provisions with respect to the operation and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the Registered Owners of the Bonds. By acceptance of this Bond the Registered Owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

**THE OBLIGATION** to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the Registered Owner of this Bond.

**THE DISTRICT RESERVES THE RIGHT** to issue additional bonds heretofore or hereafter duly authorized at elections held in the District payable from a lien on and pledge of taxes; revenue bonds, notes and other obligations payable solely from revenues of the District or revenues to be received under contracts with other persons, including private corporations, municipalities and political subdivisions or from any other source. The District further reserves the right to issue refunding bonds in any manner permitted by law to refund any bonds (including the Bonds) at or prior to their respective dates of maturity or redemption.

**TO THE EXTENT** permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the Registered Owners of the Bonds may be modified with, in certain circumstances, the consent of the Registered Owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the Registered Owners of all of the Bonds affected, no such modification shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

**THIS BOND** shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Registrar.

**IT IS FURTHER CERTIFIED** that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

**IT IS HEREBY CERTIFIED, COVENANTED, AND REPRESENTED** that all acts, conditions, and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form, and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

**IN WITNESS WHEREOF**, the District has caused this Bond to be signed with the manual or facsimile signature of the President or Vice President of the Board of Directors of the District and countersigned with the manual or facsimile signature of the Secretary or Assistant Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

**REUNION RANCH WATER CONTROL  
AND IMPROVEMENT DISTRICT**

\_\_\_\_\_  
Secretary, Board of Directors

\_\_\_\_\_  
President, Board of Directors

(SEAL)

**INSERTIONS FOR THE INITIAL BOND**

The Initial Bond shall be in the form set forth in this Section, except that:

A. immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As shown below" and "CUSIP NO." shall be deleted.

B. the first paragraph shall be deleted and the following will be inserted:

"ON THE MATURITY DATE SPECIFIED BELOW, the Reunion Ranch Improvement District (the "District"), being a political subdivision, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), on August 15 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

Year of Maturity	Amount Maturing	Interest Rate
---------------------	--------------------	------------------

(Information from Section 3.03 to be inserted)

The District promises to pay interest on the unpaid principal amount hereof (calculated on the basis of a 360-day year of twelve 30-day months) from the initial date of delivery of the Bonds, at the respective Interest Rate per annum specified above. Interest is payable on August 15, 2017 and semiannually on each February 15 and August 15 thereafter to the date of payment of the principal installment specified above; except, that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full."

C. The Initial Bond shall be numbered "T-1."

**SECTION 6.02. REGISTRATION OF INITIAL BOND BY STATE COMPTROLLER AND CERTIFICATE.** The Initial Bond shall be registered by the Comptroller of Public Accounts of the State of Texas as provided by law. The registration certificate of the Comptroller of Public Accounts of the State of Texas shall be printed on the face of the Initial Bond and shall be in substantially the following form:

**COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.**

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this \_\_\_\_\_.

\_\_\_\_\_  
Comptroller of Public Accounts

of the State of Texas

(COMPTROLLER'S SEAL)

**SECTION 6.03. FORM OF AUTHENTICATION CERTIFICATE.** The following form of authentication certificate shall be printed on the face of each of the Bonds other than the Initial Bond:

**PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE  
(To be executed if this Bond is not accompanied by an  
executed Registration Certificate of the Comptroller  
of Public Accounts of the State of Texas)**

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds, or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated:

**BOKF, NA**  
Registrar

By \_\_\_\_\_  
Authorized Representative

**SECTION 6.04. FORM OF ASSIGNMENT.** A form of assignment shall be printed on the back of each of the Bonds and shall be in substantially the following form:

**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto

\_\_\_\_\_

\_\_\_\_\_  
Please insert Social Security or Taxpayer  
Identification Number of Transferee

\_\_\_\_\_

\_\_\_\_\_

(Please print or typewrite name and address,  
including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature above must correspond with the name of the Registered Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

**SECTION 6.05. CUSIP REGISTRATION.** The President of the Board of Directors may secure the printing of identification numbers on the Bonds through the CUSIP Service Bureau.

**SECTION 6.06. LEGAL OPINION AND BOND INSURANCE.** The approving opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, may be printed on the back of the Bonds over the certification of the Secretary or Assistant Secretary of the Board of Directors which may be executed in facsimile. In addition, if any bond insurance is obtained, any statement of insurance may be placed on the Bonds.

## ARTICLE SEVEN

### SECURITY OF THE BONDS

**SECTION 7.01. SECURITY OF BONDS AND PERFECTION OF LIEN.** The Bonds are secured by and payable from the levy of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, upon all taxable property within the District.

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the ad valorem taxes granted by the District under this Bond Order, and is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of ad valorem taxes granted by the District under this Bond Order is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the

security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

**SECTION 7.02. LEVY OF TAX.** To pay the interest on the Bonds, and to create a sinking fund for the payment of the principal thereof when due, and to pay the expenses of assessing and collecting such taxes, there is hereby levied, and there shall be assessed and collected in due time, a continuing, direct annual ad valorem tax without limit as to rate or amount on all taxable property in the District for each year while any of the Bonds are outstanding. All of the proceeds of such collections, except expenses incurred in that connection, shall be paid into the Debt Service Fund, and the aforementioned tax and such payments into such fund shall continue until the Bonds and the interest thereon have been fully paid and discharged, and such proceeds shall be used for such purposes and no other. While said Bonds, or any of them, are outstanding and unpaid, an ad valorem tax will be ample and sufficient to provide funds to pay the interest on said Bonds and to provide the necessary sinking fund to pay the principal when due, full allowance being made for delinquencies and costs of collection, together with revenues and receipts from other sources that are legally available for such purpose, shall be levied and collected and applied to the payment of principal and interest on the Bonds, as follows:

(a) By September 1 in each year, or as soon thereafter as practicable, the Board shall consider the taxable property in the District and determine the actual rate per \$100 valuation of taxable property which is to be levied in that year and levy the tax against all taxable property in the District.

(b) In determining the actual rate to be levied in each year, the Board shall consider among other things:

(i) the amount which should be levied for maintenance and operation purposes;

(ii) the amount which should be levied for the payment of principal, interest, and redemption price of each series of bonds or notes payable in whole or in part from taxes;

(iii) the amount which should be levied for the purpose of paying all other contractual obligations of the District payable in whole or in part from taxes; and

(iv) the percentage of anticipated tax collections and the cost of collecting the taxes.

(c) In determining the amount of taxes which should be levied each year, the Board shall consider whether proceeds from the sale of Bonds have been placed in the Debt Service Fund to pay interest on the Bonds and whether the Board reasonably expects to have revenue or

receipts available from other sources which are legally available to pay debt service on the Bonds.

**SECTION 7.03. PAYMENT OF BONDS AND PERFORMANCE OF OBLIGATIONS.** The District covenants to pay promptly the principal of and interest on the Bonds as the same become due and payable, whether at maturity or by prior redemption, in accordance with the terms of the Bonds and this Bond Order, and to keep and perform faithfully all of its covenants, undertakings, and agreements contained in this Bond Order, or in any Bond executed, authenticated, and delivered hereunder.

**SECTION 7.04. CONSOLIDATION OR DISSOLUTION OF DISTRICT.** To the extent provided by law, the pledge of taxes set forth in Section 7.02 will terminate if a city takes over all properties and assets, assumes all debts, liabilities, and obligations, and performs all functions and services of the District, and the District is abolished pursuant to law.

The laws of the State of Texas permit the District to be consolidated with one or more conservation and reclamation districts. In the event the District is consolidated with another district or districts, the District reserves the right to:

(i) Consolidate the System with a similar system of one or more Districts with which the District is consolidating and operate and maintain the systems as one consolidated system (herein for purposes of this section the "Consolidated System").

(ii) Apply the net revenues from the operation of the Consolidated System to the payment of principal, interest, redemption price and bank charges on the revenue bonds or the combination tax and revenue bonds (herein for purposes of this section the "Revenue Bonds") of the District and of the district or districts with which the District is consolidating (herein collectively the "Consolidating Districts") without preference to any series of bonds (except subordinate lien revenue bonds which shall continue to be subordinate to the first lien Revenue Bonds of the Consolidating Districts).

(iii) Pledge the net revenues of the Consolidated System to the payment of principal, interest, redemption price and bank charges on Revenue Bonds which may be issued by the Consolidating Districts on a parity with the outstanding first lien Revenue Bonds of the Consolidating Districts.

## **ARTICLE EIGHT**

### **FLOW OF FUNDS AND INVESTMENTS**

**SECTION 8.01. CREATION OF FUNDS.** The Debt Service Fund, the Operating Fund and the Series 2016 Capital Projects Fund are hereby created or confirmed. The Debt Service Fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the

owners of the Bonds. All other funds shall be used solely as provided in this Bond Order until all of the Bonds have been retired, both as to principal and interest.

**SECTION 8.02. OPERATING FUND.** The Operating Fund shall comprise the fund of the District for operating and maintaining the System and paying general and administrative expenses of the District. The District shall deposit to the credit of the Operating Fund all income or increment which may grow out of the ownership and operation of the System unless derived from contracts with other persons, including private corporations, municipalities, and political subdivisions which, under the terms of the authorizing orders, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts, and the District may deposit to the credit of the Operating Fund such other income or receipts of the District not otherwise required to be applied by this Bond Order. The Operating Fund shall be used solely to (i) pay all reasonable expenses of the administration, efficient operation, and adequate maintenance of the System, (ii) transfer from time to time any excess to the credit of the Debt Service Fund when needed to pay the obligations of the District payable therefrom, and (iii) pay any other expense of the District to the extent the balance of the Debt Service Fund and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from the Debt Service Fund.

**SECTION 8.03 SERIES 2016 CAPITAL PROJECTS FUND.** The Series 2016 Capital Projects Fund shall comprise a capital improvements fund of the District. The District shall deposit to the credit of the Series 2016 Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in Section 9.02 of this Bond Order. The Series 2016 Capital Projects Fund shall be applied solely to pay (i) the costs necessary or appropriate to accomplish such of the purposes for which the Bonds are issued as approved by the Commission with any surplus proceeds applied in accordance with the Bond Election and subject to the Commission's further approval or as authorized by Commission rules and (ii) the costs of issuing the Bonds. Interest earnings derived from the investment of proceeds from the sale of the Bonds deposited in the Series 2016 Capital Projects Fund shall be used for the purpose for which the Bonds are issued; provided that after completion of the purposes set forth in Section 3.01 of this Bond Order any interest earnings remaining on hand shall be deposited in the Debt Service Fund.

**SECTION 8.04 SECURITY OF FUNDS.** Any cash balance in any fund, to the extent not insured by the Federal Deposit Insurance Corporation or its successor shall be continuously secured in the manner provided by State law for the security of funds.

**SECTION 8.05. DEBT SERVICE FUND.** The District shall deposit or cause to be deposited into the Debt Service Fund the aggregate of the following at the time specified:

(a) As soon as practicable after the Bonds are sold, accrued interest on the Bonds from their date to the date of their delivery, if any, and capitalized interest on the Bonds, if any; and



(b) The proceeds from collection of the ad valorem taxes levied, assessed and collected for and on account of the Bonds pursuant to Section 7.02 hereof, less costs of collection, as collected.

On or before the date for payment of the principal and/or Interest Payment Date on the Bonds, the Board of Directors shall cause the transfer of moneys out of the Debt Service Fund to the Registrar in an amount not less than that which is sufficient to pay the principal which matures on such date and the interest which accrues on such date. The District shall pay fees and charges of the Registrar for its services as paying agent and registrar for the Bonds from the Debt Service Fund.

**SECTION 8.06. INVESTMENTS; EARNINGS.** Moneys deposited into the Debt Service Fund, the Operating Fund and the Series 2016 Capital Projects Fund and any other fund or funds which the District may lawfully create may be invested or reinvested in Authorized Investments. All investments and any profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund. If any moneys are so invested, the District shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. After such sale the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken. The District shall not be responsible to the Registered Owners for any loss arising out of the sale of any investments.

## ARTICLE NINE

### APPLICATION OF BOND PROCEEDS

**SECTION 9.01. BOND PROCEEDS.** Proceeds from the sale of the Bonds will be disbursed in accordance with this Article.

**SECTION 9.02. ACCRUED AND CAPITALIZED INTEREST.** Moneys received from the Initial Purchaser of the Bonds representing accrued interest on the Bonds from their date to the date of their actual delivery, if any, shall be deposited into the Debt Service Fund. In addition, proceeds of the Bonds representing capitalized interest, if any, shall be deposited into the Debt Service Fund.

**SECTION 9.03. CAPITAL PROJECTS.** Proceeds of the Bonds necessary to complete the purposes set forth in Section 3.01 herein and to pay the costs of issuance of the Bonds shall be deposited in the Series 2016 Capital Projects Fund. Any surplus bond proceeds after completion of the projects authorized in the Commission Order, shall be applied in accordance with the Bond Election and subject to the Commission's approval or as authorized by Commission rules.

**ARTICLE TEN**  
**PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION**

**SECTION 10.01. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE BONDS.** (a) Covenants. The District covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the District covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the District, with respect to such private business use, do not, under the terms of this Bond Order or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(2) to take any action to assure that in the event that the "private business use" described in subsection (1) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(3) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(4) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(5) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(6) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(7) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(8) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

(b) Rebate Fund. In order to facilitate compliance with the above covenant (8), a "Rebate Fund" is hereby established by the District for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Proceeds. The District understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the District that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the District will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the District agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the District hereby authorizes

and directs the President or Vice President to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the District, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Allocation Of, and Limitation On, Expenditures for the Project. The District covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 3.01 of this Bond Order (the "Project") on its books and records in accordance with the requirements of the Code. The District recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the District recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds, or (2) the date the Bonds are retired. The District agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the District shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(e) Disposition of Project. The District covenants that the property constituting the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the District of cash or other compensation, unless the District obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the District shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(f) Designation as Qualified Tax-Exempt Obligations. The District hereby designates the Bonds as "qualified tax-exempt obligations" as defined in section 265(b)(3) of the Code, conditioned upon the Initial Purchaser identified in Section 15.01 hereof certifying that the aggregate initial offering price of the Bonds to the public (excluding any accrued interest) is no greater than \$10,000,000 (or such amount permitted by section 265 of the Code). Assuming such condition is met, in furtherance of such designation, the District represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the District (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Bonds, will result in more than \$10,000,000 (or such amount permitted by section 265 of the Code) of "qualified tax-exempt obligations" being issued; (b) that the District reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Bonds are issued, by the District (or any subordinate entities) will not

exceed \$10,000,000 (or such amount permitted by section 265 of the Code); and, (c) that the District will take such action or refrain from such action as necessary, and as more particularly set forth in this Section, in order that the Bonds will not be considered "private activity bonds" within the meaning of section 141 of the Code.

## ARTICLE ELEVEN

### ADDITIONAL BONDS AND REFUNDING BONDS

**SECTION 11.01. ADDITIONAL BONDS.** The District expressly reserves the right to issue, in one or more installments, for the purpose of purchasing, constructing, acquiring, owning, operating, maintaining, repairing, improving, or extending the System, or for any other lawful purpose:

- (a) the unissued unlimited tax bonds which were authorized pursuant to the Bond Election; and
- (b) such other unlimited tax bonds as may hereafter be authorized at subsequent elections.

**SECTION 11.02. OTHER BONDS AND OBLIGATIONS.** The District further reserves the right to issue combination unlimited tax and revenue bonds, if authorized by election, and such other bonds or other obligations as may be lawfully issued by the District including any obligations issued for special projects or defined areas.

**SECTION 11.03. REFUNDING BONDS.** The District further reserves the right to issue refunding bonds in any manner permitted by law to refund the Bonds, and any outstanding bonds, any additional bonds, or any other obligations issued by the District, at or prior to their respective dates of maturity or redemption.

## ARTICLE TWELVE

### DEFAULT PROVISIONS

#### SECTION 12.01. DEFAULT AND REMEDIES.

(a) *Events of Default.*

Each of the following occurrences or events for the purpose of this Bond Order is hereby declared to be an "Event of Default":

- (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the District, the failure to perform which materially, adversely affects the rights of the Registered Owners of the Bonds, including, but not limited to, their prospect or ability to be repaid in accordance with this Bond Order, and, if such default is capable of cure, the continuation thereof for a period of sixty (60) days after notice of such default is given by any Registered Owner to the District.

**(b) Remedies for Event of Default.**

(i) Upon the happening of any Event of Default, then and in every case, any Registered Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the District, or any official, officer or employee of the District in its official capacity, for the purpose of protecting and enforcing the rights of the Registered Owners under this Bond Order, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Registered Owners hereunder or any combination of such remedies.

(ii) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Registered Owners of Bonds then Outstanding.

**(c) Remedies Not Exclusive.**

(i) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Bond Order, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Bond Order.

(ii) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(iii) By accepting the delivery of a Bond authorized under this Bond Order, such Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this Bond Order do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees or trustees of the District or the Board of Directors.

(iv) None of the members of the Board of Directors, nor any other official or officer, agent, or employee of the District, shall be charged personally by the Registered

Owners with any liability, or be held personally liable to the Registered Owners under any term or provision of this Bond Order, or because of any Event of Default or alleged Event of Default under this Bond Order.

**SECTION 12.02. BOND ORDER IS CONTRACT.** In consideration of the purchase and acceptance of the Bonds authorized to be issued hereunder by the Registered Owners, the provisions of this Bond Order shall be deemed to be and shall constitute a contract between the District and the Registered Owners; and the covenants and agreements herein set forth to be performed on behalf of the District shall be for the equal benefit, protection, and security of each of the Registered Owners. The Bonds, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority, or distinction of any Bond over any other, except as expressly provided herein.

## **ARTICLE THIRTEEN**

### **DISCHARGE BY DEPOSIT**

#### **SECTION 13.01. DEFEASANCE OF BONDS.**

(a) Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Bond") within the meaning of this Bond Order, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date or dates (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or the establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar or an eligible trust company or commercial bank for the payment of its services until all Defeased Bonds shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes herein levied as provided in this Bond Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) The deposit under clause (ii) of subsection (a) shall be deemed a payment of a Bond as aforesaid when proper notice of redemption of such Bonds shall have been given or upon the establishment of irrevocable provisions for the giving of such notice, in accordance with this Bond Order. Any money so deposited with the Paying Agent/Registrar or an eligible trust

company or commercial bank as provided in this Section may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to this Section which is not required for the payment of such Bond and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

(c) Notwithstanding any provision of any other Section of this Bond Order which may be contrary to the provisions of this Section, all money or Defeasance Securities set aside and held in trust pursuant to the provisions of this Section for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by this Bond Order.

(d) Notwithstanding anything elsewhere in this Bond Order, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or an eligible trust company or commercial bank pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bond affected thereby.

(e) Notwithstanding the provisions of subsection (a) immediately above, to the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions of subsection (a) immediately above with respect to such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

## **ARTICLE FOURTEEN**

### **MISCELLANEOUS PROVISIONS**

**SECTION 14.01. DISTRICT'S SUCCESSORS AND ASSIGNS.** Whenever in this Bond Order the District is named and referred to, it shall be deemed to include its successors and assigns, and all covenants and agreements in this Bond Order by or on behalf of the District, except as otherwise provided herein, shall bind and inure to the benefit of its successors and assigns whether or not so expressed.



**SECTION 14.02. NO RECOURSE AGAINST DISTRICT OFFICERS OR DIRECTORS.** No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on this Bond Order against any officer or director of the District or any person executing the Bonds.

**SECTION 14.03. REGISTRAR.** The Registrar shall act as agent for the payment of principal of and interest on the Bonds and shall maintain the Register for the Bonds, all in accordance with the terms of this Bond Order. If the Registrar or its successor becomes unable for any reason to act as Registrar hereunder, or if the Board of Directors of the District determines that a successor Registrar should be appointed, a successor Registrar shall be selected by the District. Any successor Registrar shall be either a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

**SECTION 14.04. REGISTRAR MAY OWN BONDS.** The Registrar, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not Registrar.

**SECTION 14.05. BENEFITS OF PROVISIONS.** Nothing in this Bond Order or in the Bonds, expressed or implied, shall give or be construed to give any person, firm, or corporation, other than the District, the Registrar, and the Registered Owners, any legal or equitable right or claim under or in respect of this Bond Order, or under any covenant, condition, or provision herein contained, all the covenants, conditions, and provisions contained in this Bond Order or in the Bonds being for the sole benefit of the District, the Registrar, and the Registered Owners.

**SECTION 14.06. UNAVAILABILITY OF AUTHORIZED PUBLICATION.** If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Bond Order shall be given in such other manner and at such time or times as in the judgment of the District shall most effectively approximate such required publication, and the giving of such notice in such manner shall for all purposes of this Bond Order be deemed to be in compliance with the requirements for publication thereof.

**SECTION 14.07. SEVERABILITY CLAUSE.** If any word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order, or the application thereof to any person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Bond Order and the application of such word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order to any other persons or circumstances shall not be affected thereby.

**SECTION 14.08. ACCOUNTING.** The District will keep proper records and accounts regarding the levy and collection of taxes, which records and accounts will be made

available to any Registered Owner on reasonable request. Each year while any of the Bonds are outstanding, the District shall have an audit of its books and accounts by a certified public accountant or firm of certified public accountants, based on its Fiscal year, and copies of such audits will be made available to any Registered Owner upon request.

## **ARTICLE FIFTEEN**

### **SALE AND DELIVERY OF BONDS AND APPROVAL OF DOCUMENTS**

**SECTION 15.01. SALE OF BONDS.** The Bonds are hereby sold, pursuant to the taking of public bids therefor, on this date, and shall be delivered to RBC Capital Markets (the "Initial Purchaser") at a price of 97.000% of the par amount. The Board hereby finds and determines that the net effective interest rate on the Bonds, as calculated pursuant to Chapter 1204, Texas Government Code, as amended is 4.164208% which rate is not more than two (2) percent above the highest average interest rate reported by the "Daily Bond Buyer" in its weekly "20 Bond Index" during the one month period preceding November 3, 2016. It is hereby officially found, determined, and declared that the terms of this sale are the most advantageous reasonably obtainable and the Initial Purchaser's sealed bid produced the lowest net effective interest rate to the District as required by Section 49.183, Texas Water Code, as amended. The Initial Bond shall be registered in the name of Cede & Co.

**SECTION 15.02. APPROVAL, REGISTRATION, AND DELIVERY.** The President of the Board of Directors of the District and representatives of McCall, Parkhurst & Horton L.L.P. are hereby authorized and directed to submit the Initial Bond and a transcript of the proceedings relating to the issuance of the Bonds to the Attorney General of the State of Texas for approval and, following said approval, to submit the Initial Bond to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Initial Bond, the Comptroller of Public Accounts (or a deputy designated in writing to act for the Comptroller) shall manually sign the Comptroller's registration certificate prescribed herein to be printed and endorsed on the Initial Bond, and the seal of the Comptroller shall be impressed or placed in facsimile on the Initial Bond. After the Initial Bond has been registered, signed, and sealed by the Comptroller, it shall be delivered to the Initial Purchaser, but only upon receipt of the full purchase price.

**SECTION 15.03 APPROVAL OF OFFERING DOCUMENTS AND PAYING AGENT/REGISTRAR AGREEMENT.** A "Notice of Sale and Bidding Instructions", an "Official Bid Form", and a "Preliminary Official Statement", dated November 1, 2016, were prepared and distributed in connection with the sale of the Bonds (said documents are hereinafter referred to as the "Offering Documents"). Said Offering Documents, and any addenda, supplement, or amendment thereto, are hereby approved by the Board of Directors of the District, and their use in the offer and sale of the Bonds is hereby approved.

The Paying Agent/Registrar Agreement by and between the District and BOKF, NA, ("Paying Agent Agreement") in substantially the form and substance attached hereto as Exhibit

"A" is hereby approved and the President or Vice President is hereby authorized and directed to complete, amend, modify and execute the Paying Agent Agreement, as necessary and the Secretary or Assistant Secretary is authorized and directed to attest such agreement.

**ARTICLE SIXTEEN**

**OPEN MEETING AND EFFECTIVE DATE**

**SECTION 16.01. OPEN MEETING.** The Board of Directors officially finds, determines, and declares that this Bond Order was reviewed, carefully considered, and adopted at a meeting of the Board, and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted as required by the Open Meetings Act, Chapter 551, Texas Government Code, as amended, and that this meeting has been open to the public as required by law at all times during which this Bond Order and the subject matter hereof has been discussed, considered, and acted upon. The Board of Directors further ratifies, approves and confirms such written notice and the contents and posting thereof.

**SECTION 16.02. EFFECTIVE DATE OF BOND ORDER.** This Bond Order shall take effect and be in full force and effect upon and after its passage.

**ARTICLE SEVENTEEN**

**AMENDMENTS**

**SECTION 17.01. AMENDMENTS.** (a) Amendment with Consent of Owners of 51% of Bonds. The owners of 51% in aggregate principal amount of then outstanding Bonds shall have the right from time to time to approve any amendment to this Bond Order which may be deemed necessary or desirable by the District; provided however, that, other than as permitted by subsection (f) of this Section 17.01, nothing herein contained shall permit or be construed to permit the amendment, without the consent of the owner of each of the outstanding Bonds affected thereby, of the terms and conditions of this Bond Order or the Bonds so as to:

- (1) change debt service requirements, interest payment dates or the maturity or maturities of the outstanding Bonds;
- (2) reduce the rate of interest borne by any of the outstanding Bonds;
- (3) reduce the amount of the principal of, redemption premium, if any, or interest on the outstanding Bonds or impose any conditions with respect to such payments;
- (4) modify the terms of payment of principal of, redemption premium, if any, or interest on the outstanding Bonds, or impose any conditions with respect to such payments;

(5) affect the right of the Registered Owners of less than all of the Bonds then outstanding; or

(6) decrease the minimum percentage of the principal amount of Bonds necessary for consent to any such amendment.

(b) Notice of Amendment. If at any time the District shall desire to amend this Bond Order it may cause a written notice of the proposed amendment to be published at least once on a business day in a financial newspaper, journal, or publication of general circulation in the City of New York, New York, or in the State of Texas. If, because of temporary or permanent suspension of the publication or general circulation of all such newspapers, journals, or publications, it is impossible or impractical to publish such notice in the manner provided herein, then such publication in lieu thereof as shall be made by the Registrar shall constitute a sufficient publication of notice. In addition to such publication, the Registrar shall cause a written notice of the proposed amendment to be given by registered or certified mail to Registered Owners of the Bonds as shown on the Register maintained by the Registrar; provided, however, that failure to receive such written notice of the proposed amendment, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding in connection with, or the adoption of, such amendment. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all Registered Owners of Bonds.

(c) Consent to Amendment. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of said notice or other services of written notice the District shall receive an instrument or instruments executed by the Registered Owners of at least 51% in aggregate principal amount of all Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and shall specifically consent to and approve such amendment, the District may adopt the amendatory resolution or order in substantially the same form.

(d) Effect of Amendment. Upon the adoption of any amendatory resolution or order pursuant to the provisions of this Section, this Bond Order shall be deemed to be amended in accordance with such amendatory resolution or order, and the respective rights, duties, and obligations under such amendatory resolution or order of all the Registered Owners shall thereafter be determined and exercised subject in all respects to such amendments.

(e) Consent of Registered Owners. Any consent given by a Registered Owners pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the Bonds during such period. Such consent may be revoked by the Registered Owner who gave such consent at any time after six months from the date of the first giving of such notice, or by a successor in title, by filing notice thereof with the Registrar and the District, but such revocation shall not be effective if the Registered Owners of 51% in

aggregate principal amount of the then outstanding Bonds have, prior to the attempted revocation, consented to and approved the amendment.

(f) Amendments Without Consent. Notwithstanding the provisions of (a) through (e) of this Section, and without notice of the proposed amendment and without the consent of the Registered Owners. The District may, at any time, amend this Bond Order to cure any ambiguity or to cure, correct, or supplement any defective or inconsistent provision contained therein, or to make any other change that does not in any respect materially and adversely affect the interest of the Registered Owners, provided that no such amendment shall be made contrary to the provision to Section 17.01 (a), and a duly certified or executed copy of each such amendment shall be filed with the Registrar.

**ARTICLE EIGHTEEN**

**CONTINUING DISCLOSURE UNDERTAKING**

**Section 18.01. CONTINUING DISCLOSURE UNDERTAKING.**

(a) Annual Reports. The District shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, within six months after the end of any fiscal year, financial information and operating data with respect to the District of the general type included in the final Official Statement authorized by Section 15.03 of this Order, being the information described in Exhibit "B" hereto. Any financial statements to be so provided shall be (1) prepared in accordance with the accounting principles described in Exhibit "B" hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within twelve months after any fiscal year end, then the District shall provide unaudited financial statements within such twelve-month period, and audited financial statements for the applicable fiscal year to the MSRB, when and if the audit report on such statements become available.

If the District changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet web site or filed with the SEC. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB.

(b) Event Notices. The District shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults, if material within the meaning of the federal securities laws;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds, if material within the meaning of the federal securities laws;
- H. Bond calls, if material within the meaning of the federal securities laws;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds, if material within the meaning of the federal securities laws;
- K. Rating changes;
- L. Bankruptcy, insolvency, receivership or similar event of the District;
- M. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material within the meaning of the federal securities laws; and
- N. Appointment of a successor or additional trustee or the change of name of a trustee, if material within the meaning of the federal securities laws.

The District shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with paragraph (a) of this section by the time required by such paragraph. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB.

(c) Limitations, Disclaimers and Amendments. The District shall be obligated to observe and perform the covenants specified in this section for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any deposit made in accordance with Section 13.01 of this Order that causes the Bonds no longer to be outstanding.

The provisions of this section are for the sole benefit of the Registered Owners of the Bonds, and nothing in this section, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements and notices which it has expressly agreed to provide pursuant to this section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition or prospects or hereby undertake to update any information provided in accordance with this section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE REGISTERED OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this section shall comprise a breach of or default under the Order for purposes of any other provision of this Order.

Should the Rule be amended to obligate the District to make filings with or provide notices to entities other than the MSRB, the District hereby agrees to undertake such obligation with respect to the Bonds in accordance with the Rule as amended.

Nothing in this section is intended or shall act to disclaim, waive or otherwise limit the duties of the District under federal and state securities laws.

The provisions of this section may be amended by the District from time to time to adapt to 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, but only if (1) the provisions of this section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consents to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. If the District so amends the provisions of this section, it shall include with any amended financial information or operating data next provided in accordance with paragraph (a) of this section an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

## **ARTICLE NINETEEN**

### **OTHER ACTIONS**

**SECTION 19.01. OTHER ACTIONS.** The President or Vice President and Secretary or Assistant Secretary of the Board of Directors of the District and all other officers, employees and agents of the District, and each of them, shall be and they are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the District all instruments as may be necessary or desirable in order to carry out the terms and provisions of this Bond Order, the Bonds, the sale of the Bonds and the Official Statement. In addition, prior to the initial delivery of the Bonds, President, Vice President or Treasurer and Secretary or Assistant Secretary of the Board of Directors of the District, the District's Attorney and Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Bond Order or to any of the instruments authorized and approved by this Bond Order necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Bond Order and as described in the Official Statement, (ii) obtain a rating from any of the national bond rating agencies or satisfy requirements of the bond insurer, if any, or (iii) obtain the approval of the Bonds by the Texas Attorney General's office.

**SECTION 19.02. PAYMENT OF ATTORNEY GENERAL FEE.** The District hereby authorizes the disbursement of a fee equal to the lesser of (i) one-tenth of one percent of



the principal amount of the Bonds or (ii) \$9,500, provided that such fee shall not be less than \$750, to the Attorney General of Texas Public Finance Division for payment of the examination fee charged by the State of Texas for the Attorney General's review and approval of public securities and credit agreements, as required by Section 1202.004 of the Texas Government Code. The appropriate member of the District's staff is hereby instructed to take the necessary measures to make this payment. The District is also authorized to reimburse the appropriate District funds for such payment from proceeds of the Bonds.

**EXHIBIT "A"**

**PAYING AGENT/REGISTRAR AGREEMENT**

[SEE SEPARATE TAB OF TRANSCRIPT]

## **EXHIBIT "B"**

### **CONTINUING DISCLOSURE**

Information of the general type included in the Official Statement in Appendix A and Tables 1 through 9.

#### **Accounting Principles**

The accounting and reporting policies of the District relating to the funds and account groups will conform to generally accepted accounting principles (GAAP) as applied to governmental entities.

## PAYING AGENT/REGISTRAR AGREEMENT

**THIS PAYING AGENT/REGISTRAR AGREEMENT** entered into December 22, 2016 (this "Agreement") is between the **Reunion Ranch Water Control and Improvement District** (the "Issuer") and BOKF, NA, a national banking association duly organized and existing under the laws of the United States of America and qualified to transact business in the State of Texas (the "Bank").

### RECITALS OF THE ISSUER

The Issuer has duly authorized and provided for the issuance of its "**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT UNLIMITED TAX BONDS, SERIES 2016**" (the "Securities"), dated November 15, 2016, in the aggregate original principal amount of \$3,700,000 to be issued as registered securities without coupons;

All things necessary to make the Securities the valid obligations of the Issuer, in accordance with their terms, will be taken upon the issuance and delivery thereof;

The Issuer is desirous that the Bank act as the "Paying Agent" of the Issuer in paying the principal, premium (if any) and interest on the Securities, in accordance with the terms thereof, and that the Bank act as "Registrar" for the Securities;

The Issuer has duly authorized the execution and delivery of this Agreement; and all things necessary to make this Agreement the valid agreement of the Issuer, in accordance with its terms, have been done.

**NOW, THEREFORE**, it is mutually agreed as follows:

### ARTICLE ONE APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

#### **Section 1.01 Appointment.**

The Issuer hereby appoints the Bank to act as Paying Agent with respect to the Securities, in order to pay, when due, the principal, premium (if any), and interest on all or any of the Securities to the Holders of the Securities, all in accordance with this Agreement and the Ordinance (defined below).

The Issuer hereby appoints the Bank as Registrar with respect to the Securities.

The Bank hereby accepts its appointment, and has full power and authority and agrees to perform and serve as the Paying Agent and the Registrar.

## **Section 1.02 Compensation.**

As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in **Annex A** hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for political subdivisions, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year (defined below) of the Issuer and which shall be effective upon the first day of the following Fiscal Year. The Issuer will provide notice to the Bank of any change in the Issuer's Fiscal Year.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements, and advances incurred or made by the Bank in accordance with any of the provisions of this Agreement (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

## **ARTICLE TWO DEFINITIONS**

### **Section 2.01 Definitions.**

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms, whenever the same appear in this Agreement without qualifying language, are defined to mean as follows:

*"Acceleration Date"* of any Security means the date on and after which the principal or any or all installments of interest, or both, are due and payable on any Security which has become accelerated pursuant to the terms of the Security.

*"Bank Office"* means the corporate trust office of the Bank set forth on the signature page of this Agreement. The Bank will notify the Issuer, in writing, of any change in location of the Bank Office.

*"Fiscal Year"* means the fiscal year of the Issuer, which currently begins on October 1 and ends on September 30 of each year.

*"Holder"* and *"Security Holder"* each means a Person (defined below) in whose name a Security is registered in the Security Register.

*"Issuer Request"* and *"Issuer Order"* mean a written request or order signed in the name of the Issuer by an officer of the governing body and delivered to the Bank.

*"Legal Holiday"* means a day on which the Bank is required or authorized to be closed.

*"Ordinance"* means the resolution, order, or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, certified by the secretary of the governing body of the Issuer or any other officer of the Issuer, and delivered to the Bank.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

"Predecessor Securities" of any particular Security means every previous Security evidencing all of a portion of the same obligation as that evidenced by such particular Security (and, for the purpose of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement Security has been registered and delivered in lieu thereof pursuant to Section 4.06 of this Agreement and the Ordinance).

"Record Date" means the Record Date as defined in the Ordinance.

"Redemption Date" when used with respect to any Security to be redeemed means the date fixed for such redemption pursuant to the terms of the Ordinance.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Securities" means the securities defined in the "Recitals of the Issuer" section of this Agreement.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration of Securities and of transfers, exchange and payment of Securities.

"Stated Maturity" means the date specified in the Ordinance as the fixed date on which the principal of a Security is scheduled to be due and payable.

## **Section 2.02 Other Definitions.**

The terms "Bank," "Issuer," and "Security" have the meanings assigned to them in the opening paragraph of this Agreement or in the "Recitals of the Issuer" section of this Agreement.

The terms "Paying Agent," "Registrar" and "Paying Agent/Registrar" refer to the Bank in the performance of the duties and functions of this Agreement.

## **Section 2.03 Construction of Terms.**

If appropriate in the context of this Agreement, words of the singular shall be considered to include the plural, words of the plural shall be considered to include the singular, and words of the masculine, feminine, or neuter gender shall be considered to include the other genders.

**ARTICLE THREE  
PAYING AGENT**

**Section 3.01 Duties of Paying Agent.**

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due in accordance with the Ordinance. The Bank shall compute the amount of interest to be paid each Holder, and shall prepare and send a check in the amount by United States mail (first-class postage prepaid) on or prior to each interest payment date, to the Holder of each Security (or Predecessor Securities) whose name appears in the Security Register on the Record Date. Such checks shall be mailed in such manner to such Holder at the address for each such Holder appearing on the Security Register, or shall be transmitted to such Holder on each interest payment date by such other method acceptable to the Bank, requested in writing by, and at the risk and expense of the Holder.

**Section 3.02 Payment Dates.**

The Issuer hereby instructs the Bank to pay the principal and interest on the Securities at the dates specified in the Ordinance. The Issuer agrees to transfer or to cause to be transferred, in immediately available funds, to the Bank to pay principal and/or interest, either or both, by no later than 10:00 a.m. on the payment dates.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the principal of and interest on each Security when due, by computing the amount of interest to be paid each Holder, preparing the checks and mailing the checks on the payment date, to the Holders of the Securities on the Record Date, addressed to their address appearing on the Security Register.

**Section 3.03 Reporting Requirements.**

To the extent required by the Internal Revenue Code of 1986 and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto, the Bank shall report or assure that a report is made to the Holder and the Internal Revenue Service, any amount of acquisition premium interest paid on, original issue discount or adjusted basis of the Security.

**ARTICLE FOUR  
REGISTRAR**

**Section 4.01 Transfer and Exchange.**

The Bank agrees to keep and maintain at the Bank Office a Security Register in which, subject to such reasonable written regulations as the Issuer may prescribe (which regulations will be furnished to the Bank herewith or subsequent hereto by Issuer Order), will provide for the recording of the names and addresses of the Holder of the Securities, the registration of the Securities and for transfers, exchanges, and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holder and any other information as may be

reasonably required by the Issuer. The Bank is hereby appointed Registrar for the purpose of registering Securities and transfers of Securities as provided in this Agreement. The Bank agrees to maintain the Security Register while it is Registrar.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the Financial Industry Regulatory Authority, in form satisfactory to the Bank, duly executed by the Holder thereof, or his agent, duly authorized in writing.

As a condition to effecting a re-registration, transfer or exchange of the Securities, the Registrar may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities. To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof shall be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be canceled and exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

**Section 4.02 Certificates.**

The Issuer shall provide the Registrar with an adequate inventory of Securities certificates to facilitate transfers. The Bank covenants that it will maintain the Securities certificates in safekeeping and will use reasonable care in maintaining such Securities certificates in safekeeping, which shall not be less than the level of care it maintains for debt securities of other political subdivisions or corporations for which it serves as registrar, or which it maintains for its own securities.

**Section 4.03 Form of Security Register.**

The Bank as Registrar will maintain the records of the Security Register in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Securities Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

**Section 4.04 List of Security Holders.**

The Bank will provide the Issuer at any time requested by the Issuer, upon payment of any required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information in the Security Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.



The Bank will not release or disclose the content of the Security Register to any person other than to, or at the written request of, an authorized officer, employee or agent of the Issuer, except upon receipt of a subpoena, court order, or as required by law. Upon receipt of a subpoena or court order the Bank will notify the Issuer so that the Issuer may contest the subpoena or court order.

**Section 4.05 Return of Canceled Securities.**

The Bank will destroy all canceled Securities pursuant to the Securities Exchange Act of 1934.

**Section 4.06 Mutilated, Destroyed, Lost or Stolen Securities Certificates.**

The Issuer hereby instructs the Bank to deliver and issue Securities certificates in exchange for or in lieu of mutilated, destroyed, lost or stolen Securities certificates as long as the same does not result in an overissuance.

The Bank will issue and deliver a new Security certificate in exchange for a mutilated Security certificate surrendered to it. The Bank will issue a new Security certificate in lieu of a Security certificate for which it received written representation from the Holder that the certificate representing such Security is destroyed, lost, or stolen, without the surrender or production of the original certificate. The Bank will pay on behalf of the Issuer the unpaid principal and premium, if any, of a Security at the Stated Maturity or on the Redemption Date or Acceleration Date, for which it receives written representation that the certificate representing such Security is destroyed, lost, or stolen without the surrender or production of the original certificate.

The Bank will not issue a replacement Security certificate or pay such replacement Security certificate unless there is delivered to the Bank such security or indemnity as it may require (which may be by the Bank's Blanket Lost Original Instrument Bond) to save both the Bank and the Issuer harmless.

On satisfaction of the Bank and the Issuer that a Security certificate has been mutilated, destroyed, lost or stolen, the certificate number on the mutilated, destroyed, lost or stolen Security certificate will be canceled with a notation that it has been mutilated, destroyed, lost or stolen and a new Security certificate will be issued of the same series and of like tenor and principal amount bearing a number (according to the Security Register) not contemporaneously outstanding.

The Bank may charge the Holder the Bank's fees and expenses in connection with issuing a new Security certificate in lieu of or exchange for a mutilated, destroyed, lost, or stolen Security certificate.

The Issuer hereby accepts the Bank's current Blanket Lost Original Instrument Bond for lost, stolen, or destroyed certificates and any future substitute bond for lost, stolen, or destroyed certificates that the Bank may arrange; and agrees that the coverage under any such bond is acceptable to it and meets the Issuer's requirements as to security or indemnity. The Bank need

not notify the Issuer of any changes in the security or other company giving such bond or the terms of such bond. At any time the Bank is customarily open for business, the Blanket Lost Original Instrument Bond then utilized for the purpose of lost, stolen, or destroyed certificates by the Bank shall be available for inspection by the Issuer on request. The Issuer hereby accepts the Bank's indemnity to replace the Security certificates destroyed or lost while in the possession or under the control of the Bank.

**Section 4.07 Transaction Information to Issuer.**

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01 and Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01 and Securities certificates issued in exchange for Security certificates delivered pursuant to Section 4.06.

**ARTICLE FIVE  
THE BANK**

**Section 5.01 Duties of Bank.**

The Bank undertakes to perform the duties set forth in this Agreement and in the Ordinance and agrees to use reasonable care in the performance thereof.

The Bank is also authorized to transfer funds relating to the closing and initial delivery of the Securities in the manner disclosed in the closing memorandum approved by the Issuer as prepared by the Issuer's financial advisor or other agent. The Bank may act on a facsimile or email transmission of the closing memorandum to be followed by an original of the closing memorandum signed by the financial advisor or the Issuer.

**Section 5.02 Reliance on Documents, Etc.**

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties under this Agreement, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and will be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and

to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

**Section 5.03 Recitals of Issuer.**

The recitals contained in this Agreement and in the Securities are taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank will in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

**Section 5.04 May Hold Securities.**

The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar or any other agent, provided that such dealings do not result in a breach of any duties or agreement imposed by this Agreement or a violation of laws of the State of Texas.

**Section 5.05 Money Held by Bank.**

A paying agent account shall at all times be kept and maintained by the Bank for the receipt, safekeeping, and disbursement of money received from the Issuer under this Agreement for the payment of the Securities, and money deposited to the credit of such account until paid to the Holders of the Securities shall be continuously collateralized by securities or obligations which qualify and are eligible under the laws of the State of Texas to secure and be pledged as collateral for paying agent accounts to the extent such money is not insured by the Federal Deposit Insurance Corporation.

The Bank will be under no liability for interest on any money received by it hereunder.

Subject to the provisions of Title 6 of the Texas Property Code, any money deposited with the Bank for the payment of the principal, premium, if any, or interest on any Security and remaining unclaimed for three years following the stated maturity, the Bank will, except as otherwise directed by the Issuer, upon Issuer Order, return to the Issuer. The Holder of such

Security will thereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such money will thereupon cease.

The Bank will comply with the reporting provisions of Chapter 74 of the Texas Property Code with respect to property that is presumed abandoned under Chapter 72 or Chapter 75 of the Texas Property Code or inactive under Chapter 73 of the Texas Property Code.

**Section 5.06 Indemnification.**

To the extent permitted by law, the Issuer agrees to indemnify the Bank (including its directors, officers and employees) for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on the Bank's part arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense (including its counsel fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement. The foregoing indemnities in this Section 5.06 will survive the resignation or substitution of the Bank or the termination of this Agreement.

**Section 5.07 Interpleader.**

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demands or controversy over its persons as well as funds on deposit, in either a Federal or State Court located in the State of Texas and County or Counties where either the Bank (Texas offices only) or the Issuer is located, waive personal service of any process, and agree that service of process by certified or registered mail, return receipt requested, to the address set forth in on page 12 and 13 of this Agreement will constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction in the State of Texas to determine the rights of any Person claiming interest in this Agreement.

**Section 5.08 Depository Trust Company.**

It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements," promulgated from time to time by The Depository Trust Company, which establishes requirements for securities to be eligible for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

**ARTICLE SIX  
MISCELLANEOUS PROVISIONS**

**Section 6.01 Amendment.**

This Agreement may be amended only by an agreement in writing signed by both of the parties to this Agreement.

**Section 6.02 Assignment.**

This Agreement may not be assigned by either party without the prior written consent of the other.

**Section 6.03 Notices.**

Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank must be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature pages of this Agreement.

**Section 6.04 Effect of Headings.**

The Article and Section headings in this Agreement are for convenience only and do not affect the construction of this Agreement.

**Section 6.05 Successors and Assigns; Merger, Conversion, Consolidation or Succession.**

All covenants and agreements in this Agreement by the Issuer will bind its successors and assigns, whether so expressed or not.

Any corporation into which the Bank may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which the Bank is a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Bank will be the successor to the Bank under this Agreement without the execution or filing of any paper or any further act on the part of either of the parties to this Agreement. In case any Security has been registered, but not delivered, by the Bank then in office, any successor by merger, conversion, or consolidation to such authenticating Bank may adopt such registration and deliver the Security so registered with the same effect as if such successor Bank had itself registered such Security.

**Section 6.06 Severability.**

In case any provision in this Agreement, or application thereof, shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions or applications shall not in any way be affected or impaired thereby.

**Section 6.07 Benefits of Agreement.**

Nothing in this Agreement, express or implied, will give to any Person, other than the parties to this Agreement and their successors under this Agreement, any benefit or any legal or equitable right, remedy, or claim under this Agreement.

**Section 6.08 Entire Agreement.**

This Agreement and the Ordinance constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar for the Securities, and if any conflict exists between this Agreement and the Ordinance, the Ordinance shall govern.

**Section 6.09 Counterparts.**

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

**Section 6.10 Termination.**

This Agreement will terminate on the date of final payment by the Bank of the principal of and interest on the Securities to the Holders thereof.

This Agreement may be earlier terminated upon 30 days written notice by either party; provided, however, that this Agreement may not be terminated (i) by the Bank until a successor Paying Agent/Registrar that is a national or state banking institution and a corporation or association organized and existing under the laws of the United States of America or of any state which possesses trust powers and is subject to supervision or examination by a federal or state regulatory agency has been appointed by the Issuer and has accepted such appointment, or (ii) at any time during which such termination might, in the judgment of the Issuer, disrupt, delay, or otherwise adversely affect the payment of the principal, premium, if any, or interest on the Securities. Prior to terminating this Agreement, the Issuer may reasonably require the Bank to show that such termination will not occur during a period described in (ii) above.

The resigning Paying Agent/Registrar may petition any court of competent jurisdiction for the appointment of a successor Paying Agent/Registrar if an instrument of acceptance by a successor Paying Agent/Registrar has not been delivered to the resigning Paying Agent/Registrar within 30 days after the giving of such notice of resignation.

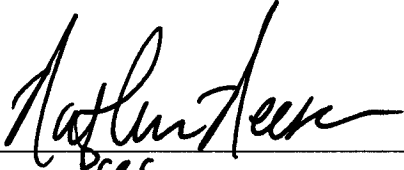
Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer. The Bank agrees that no termination fee or other charge not specifically provided for in this Agreement will be due or payable by the Issuer in connection with any early termination of this Agreement.

**Section 6.11 Governing Law.**

This Agreement shall be construed in accordance with and governed by the laws of the State of Texas and the United States of America.


IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**REUNION RANCH WATER CONTROL AND  
IMPROVEMENT DISTRICT**

By:   
Title: Pres.

Address: c/o Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705

**BOKF, NA**

  
By: \_\_\_\_\_  
Name: Jose A. Gaytan, Jr.  
Title: Vice-President  
Address: 100 Congress Avenue, Suite 250  
Austin, Texas 78701



**Annex A**  
**Fee Schedule**



**\$3,700,000**  
**Reunion Ranch Water Control and Improvement District**  
**Unlimited Tax Bonds, Series 2016**

**PAYING AGENT/REGISTRAR**

**Schedule of Fees**

**Acceptance Fee:** **\$ 0**

**Annual Administration Fee:** **\$400.00**  
**(Billed Semi-Annually @ \$200.00 w/Debt Service)**

For ordinary administration services by Paying Agent /Registrar – includes daily routine account management and processing in accordance with the agreement. Float credit received by the bank for receiving funds that remain uninvested are deemed part of the Paying Agent’s compensation.

Call or Redemption of Bonds At Cost  
Cost includes distribution to holders of record, redemption processing and notification through EMMA. Any and all publication expenses including Bond Buyer, Regional and Financial Periodicals for the call notice will be billed to the Issuer at cost.

Charges for performing extraordinary or other services not contemplated at the time of the execution of the transaction or not specifically covered elsewhere in this schedule will be determined by appraisal in the amounts commensurate with the service provided. Counsel fees, if ever retained as a result of a default, or other extraordinary occurrences on behalf of the bondholders or Bank of Texas, will be billed at cost.

Services not included in this Fee Schedule, but deemed necessary or desirable by you, may be subject to additional charges. Our proposal is subject in all aspects to review and acceptance of the final financing documents which sets forth our duties and responsibilities.

<i>Jose Gaytan</i> <i>Vice President</i> <i>Tel: 512.813.2002</i> <i>Fax: 512.813.2020</i> <i>JGaytan@bokf.com</i>	<i>BOK Financial</i> <i>Corporate Trust Services</i> <i>100 Congress Avenue</i> <i>Suite 250</i> <i>Austin, TX 78701</i>
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**CERTIFICATE FOR RESOLUTION**

**THE STATE OF TEXAS §**  
**COUNTY OF HAYS §**  
**REUNION RANCH WATER CONTROL AND §**  
**IMPROVEMENT DISTRICT §**

We, the undersigned officers of the Board of Directors of Reunion Ranch Water Control and Improvement District, (the "District") hereby certify as follows:

1. The Board of Directors of the District convened in a REGULAR MEETING ON THE 18TH DAY OF OCTOBER, 2016 at the designated meeting place (the "Meeting"), and the roll was called of the duly constituted officers and members of the Board, to wit:

- Nathan Neese, President
- Vince Terracina, Vice President
- David Bosco, Jr., Secretary
- George Sykes, Asst. Secretary
- Mike Ehrhardt, Asst. Secretary

and all of said persons were present, except the following absentees Mike Ehrhardt, thus constituting a quorum. Whereupon, among other business, the following was transacted at the Meeting: a written

**RESOLUTION APPROVING PRELIMINARY OFFICIAL STATEMENT;  
AUTHORIZING DISTRIBUTION OF PRELIMINARY OFFICIAL STATEMENT AND  
PUBLICATION OF A NOTICE OF SALE OF BONDS; AND APPROVING OTHER  
RELATED MATTERS**

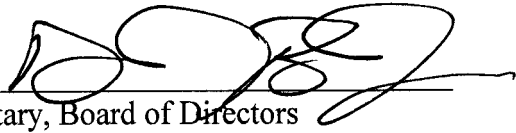
was duly introduced for the consideration of the Board. It was then duly moved and seconded that the Resolution be passed; and, after due discussion, the motion, carrying with it the passage of the Resolution, prevailed and carried by the following vote:

AYES: 4  
NOES: 0

2. A true, full and correct copy of the aforesaid Resolution passed at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; that the Resolution has been duly recorded in the Board's minutes of the Meeting; that the above and foregoing paragraph is a true, full and correct excerpt from the Board's minutes of the Meeting pertaining to the passage of the Resolution; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the Board as indicated therein; that each of the officers and members of the Board was duly and sufficiently notified

officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that the Resolution would be introduced and considered for passage at the Meeting, and each of the officers and members consented, in advance, to the holding of the Meeting for such purpose; that the Meeting was open to the public and public notice of the time, place and purpose of the Meeting was given, all as required by Chapter 551, Texas Government Code, as amended and Section 49.064, Texas Water Code, as amended.

**SIGNED AND SEALED** this October 18, 2016.



Secretary, Board of Directors



President, Board of Directors

(SEAL)

**RESOLUTION APPROVING PRELIMINARY OFFICIAL STATEMENT;  
AUTHORIZING DISTRIBUTION OF PRELIMINARY OFFICIAL  
STATEMENT AND PUBLICATION OF A NOTICE OF SALE OF BONDS; AND  
APPROVING OTHER RELATED MATTERS**

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**WHEREAS**, Reunion Ranch Water Control and Improvement District (the "District") has submitted an application to the Texas Commission on Environmental Quality ("TCEQ") requesting approval of the issuance of its \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds") for the purpose or purposes of construction of, acquisition of and/or reimbursement for certain water, wastewater and drainage facilities serving the District; and

**WHEREAS**, the Board of Directors of the District has authorized the District's financial advisor, Specialized Public Finance Inc. (the "Financial Advisor"), to prepare a Preliminary Official Statement, Official Notice of Sale and Official Bid Form (collectively the "Preliminary Official Statement") for the Bonds; and

**WHEREAS**, the Board has reviewed the Preliminary Official Statement; and

**WHEREAS**, the Board deems it appropriate to approve the Preliminary Official Statement and authorize the distribution of the Preliminary Official Statement and publication of the Notice of Sale, as further set forth below.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT THAT:**

**Section 1. APPROVAL AND DISTRIBUTION OF PRELIMINARY OFFICIAL STATEMENT.** The Board hereby approves the Preliminary Official Statement substantially in the form attached hereto as Exhibit "A" with such changes, additions or deletions as directed by the Board. Subject to the receipt of the approval of TCEQ, the District's Financial Advisor is hereby authorized and directed to distribute the Preliminary Official Statement to potential purchasers of the Bonds and to do all things necessary to market the Bonds.

**Section 2. PUBLICATION OF NOTICE OF SALE.** Subject to the receipt of the approval of TCEQ, the District's Bond Counsel is hereby authorized to publish a Notice of Sale of the Bonds in substantially the form attached hereto as Exhibit "B" with such changes as approved by General Counsel to the District.

**Section 3. CONDITIONS TO SALE.** The District's Financial Advisor, General Counsel and Bond Counsel are hereby authorized to take all actions necessary in connection with Sections 1 and 2 of this Resolution, including changing the dates and times in Exhibit "B" attached hereto.

**Section 4. OTHER MATTERS.** The President or Vice President and the Secretary or Assistant Secretary of the Board are authorized to do all things proper and necessary to carry out the

intent hereof, including the approval of appropriate changes to the Preliminary Official Statement and the Notice of Sale. In particular, the President or Vice President is authorized to execute any rating agency applications and any bond insurance commitment letter, if applicable.

**Section 5. PAYMENT OF ATTORNEY GENERAL FEE.** The District hereby authorizes the disbursement of a fee equal to the lesser of (i) one-tenth of one percent of the principal amount of the Bonds or (ii) \$9,500, provided that such fee shall not be less than \$750, to the Attorney General of Texas Public Finance Division for payment of the examination fee charged by the State of Texas for the Attorney General's review and approval of public securities and credit agreements, as required by Section 1202.004 of the Texas Government Code. The appropriate member of the District's staff is hereby instructed to take the necessary measures to make this payment. The District is also authorized to reimburse the appropriate District funds for such payment from proceeds of the Bonds.

**EXHIBIT "A"**

Preliminary Official Statement



**EXHIBIT "B"**

**NOTICE OF SALE**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BONDS, SERIES 2016**

**(A political subdivision of the State of Texas located in Hays County, Texas)**

**Selling: Tuesday, November 15, 2016**

**Bids Due: 9:30 a.m., C.S.T.**

**Place and Time of Award:** The District will consider the award of the sale of the Bonds on Tuesday, November 15, 2016 at 2:00 p.m., C.S.T., at the designated meeting place outside the boundaries of the District, at 2001 North Lamar, Austin, Texas 78705. Action will be taken immediately by the Board of Directors of the District to accept or reject the best bid. Each bidder must deliver a Bank Cashier's Check in the amount of \$74,000 payable to the order of Reunion Ranch Water Control and Improvement District as a good-faith deposit to Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T. on the date of the sale.

**Written Bids/Bids Delivered in Person:** Written bids, plainly marked "Bid for Bonds" should be addressed to the Board of Directors of Reunion Ranch Water Control and Improvement District, and if delivered in person, delivered to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T., on Tuesday, November 15, 2016. All bids must be signed and submitted on the "Official Bid Form."

**Electronic Bidding Procedures:** Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 9:30 a.m., C.S.T., on Tuesday, November 15, 2016 as described in the "Official Notice of Sale" described below.

**Bids by Telephone or Facsimile:** Telephone bids will be accepted at (512) 275-7300, between 9:00 a.m. and 9:30 a.m., C.S.T. on the date of the bid opening. Facsimile bids will be accepted at (512) 275-7305 between 9:00 a.m. and 9:30 a.m., C.S.T., to the attention of Garry Kimball, on Tuesday, November 15, 2016, all as described in the "Official Notice of Sale" described below.

**Information:** The Bonds are more completely described in the "Official Notice of Sale," "Official Bid Form" and the "Preliminary Official Statement" which may be obtained from Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, Financial Advisor to the District.

The bidder whose bid is the winning bid in accordance with the Notice of Sale will be notified immediately and must submit a SIGNED Official Bid Form in connection with the sale by 9:30 a.m., C.S.T. on Tuesday, November 15, 2016, to Garry Kimball, Specialized Public Finance Inc. at (512) 275-7305. Additionally, pursuant to Texas Government Code Section 2252.908, the District may not award the Bonds to the winning bidder unless the bidder submits a Certificate of Interested Parties Form 1295, as prescribed by the Texas Ethics Commission, to the District, before the District formally votes to award the Bonds to the winning bidder.

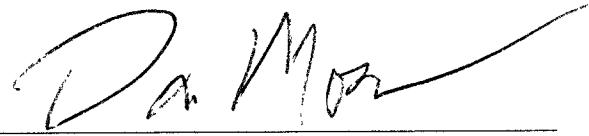
The District reserves the right to reject any or all bids for the Bonds and to waive any and all irregularities except time of filing. This notice does not constitute an offer to sell the Bonds but is merely notice of sale of the Bonds as required by law. The offer to sell the Bonds will be made only by means of the "Official Notice of Sale," the "Preliminary Official Statement" and the "Official Bid Form."

Board of Directors  
Reunion Ranch Water Control  
and Improvement District

**AFFIDAVIT OF PUBLICATION**

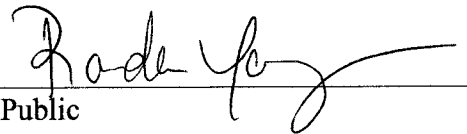
**THE STATE OF TEXAS                   §**  
**COUNTY OF HAYS                       §**  
**REUNION RANCH WATER CONTROL**  
**AND IMPROVEMENT DISTRICT       §**

**BEFORE ME**, a Notary Public in and for the State of Texas, on this day personally appeared the person whose name is subscribed below, who, having been sworn, says upon oath that he or she is a duly authorized officer or employee of the *San Marcos Daily Record*, which is a newspaper as defined in Section 2051.044, Government Code, as amended, and which is published in San Marcos, Texas and is of general circulation within the District; and that a true and correct copy of the **NOTICE OF SALE**, clippings of which are attached to this Affidavit, was published in said newspaper on October 30, 2016.

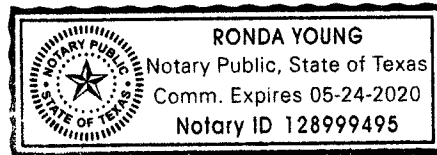


\_\_\_\_\_  
Authorized Officer or Employee

**SUBSCRIBED AND SWORN TO BEFORE ME**, this the 1<sup>st</sup> day of November, 2016.

  
\_\_\_\_\_  
Notary Public

(SEAL)



**NOTICE OF SALE**  
**\$3,700,000**  
**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
**UNLIMITED TAX BONDS, SERIES 2016**  
**(A political subdivision of the State of Texas located in Hays County, Texas)**

**Selling: Tuesday, November 15, 2016**  
**Bids Due: 9:30 a.m., C.S.T.**

**Place and Time of Award:** The District will consider the award of the sale of the Bonds on Tuesday, November 15, 2016 at 2:00 p.m., C.S.T., at the designated meeting place outside the boundaries of the District, at 2001 North Lamar Boulevard, Austin, Texas 78705. Action will be taken immediately by the Board of Directors of the District to accept or reject the best bid. Each bidder must deliver a Bank Cashier's Check in the amount of \$74,000 payable to the order of Reunion Ranch Water Control and Improvement District as a good-faith deposit to Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T. on the date of the sale.

**Written Bids/Bids Delivered in Person:** Written bids, plainly marked "Bid for Bonds" should be addressed to the Board of Directors of Reunion Ranch Water Control and Improvement District, and if delivered in person, delivered to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T. on Tuesday, November 15, 2016. All bids must be signed and submitted on the "Official Bid Form."

**Electronic Bidding Procedures:** Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 9:30 a.m., C.S.T. on Tuesday, November 15, 2016 as described in the "Official Notice of Sale" described below.

**Bids by Telephone or Facsimile:** Telephone bids will be accepted at (512) 275-7300, between 9:00 a.m. and 9:30 a.m., C.S.T. on the date of the bid opening. Facsimile bids will be accepted at (512) 275-7305 between 9:00 a.m. and 9:30 a.m., C.S.T., to the attention of Garry Kimball, on Tuesday, November 15, 2016, all as described in the "Official Notice of Sale" described below.

**Information:** The Bonds are more completely described in the "Official Notice of Sale," "Official Bid Form" and the "Preliminary Official Statement" which may be obtained from Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, Financial Advisor to the District.

The bidder whose bid is the winning bid in accordance with the Notice of Sale will be notified immediately and must submit a SIGNED Official Bid Form in connection with the sale by 9:30 a.m., C.S.T. on Tuesday, November 15, 2016, to Garry Kimball, Specialized Public Finance Inc. at (512) 275-7305. Additionally, pursuant to Texas Government Code Section 2252.908, the District may not award the Bonds to the winning bidder unless the bidder submits a Certificate of Interested Parties Form 1295, as prescribed by the Texas Ethics Commission, to the District, before the District formally votes to award the Bonds to the winning bidder.

The District reserves the right to reject any or all bids for the Bonds and to waive any and all irregularities except time of filing. This notice does not constitute an offer to sell the Bonds but is merely notice of sale of the Bonds as required by law. The offer to sell the Bonds will be made only by means of the "Official Notice of Sale," the "Preliminary Official Statement" and the "Official Bid Form."

Board of Directors  
Reunion Ranch Water Control  
and Improvement District



X  
THE STATE OF TEXAS X  
X  
  
X  
COUNTY OF TRAVIS X  
X


Before me, the undersigned authority, on this date personally appeared Charlotte Hawkins, who, having been by me duly sworn, upon her oath deposes and says;

That she is editor of TEXAS BOND REPORTER, an official publication of Municipal Advisory Council of Texas, and is authorized to make this affidavit.

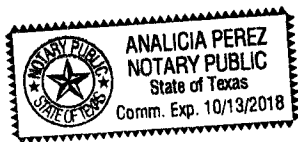
The attached is a true and correct copy of NOTICE OF SALE - REUNION RANCH WC&ID, \$3,700,000 U/L TAX BDS SER 2016 was published in the TEXAS BOND REPORTER on the following date(s), to wit: November 04, 2016.

  
\_\_\_\_\_

Sworn to and subscribed before me this the 4th day of November A.D. 2016

  
\_\_\_\_\_

Notary Public in and for the  
State of Texas  
My commission expires: 10/13/2018



**NOTICE OF SALE**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT UNLIMITED  
TAX BONDS, SERIES 2016**

**(A political subdivision of the State of Texas located in Hays County, Texas)**

**Selling: Tuesday, November 15, 2016 Bids**

**Due: 9:30 a.m., C.S.T.**

**Place and Time of Award:** The District will consider the award of the sale of the Bonds on Tuesday, November 15, 2016 at 2:00 p.m., C.S.T., at the designated meeting place outside the boundaries of the District, at 2001 North Lamar Boulevard, Austin, Texas 78705. Action will be taken immediately by the Board of Directors of the District to accept or reject the best bid. Each bidder must deliver a Bank Cashier's Check in the amount of \$74,000 payable to the order of Reunion Ranch Water Control and Improvement District as a good-faith deposit to Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T. on the date of the sale.

**Written Bids/Bids Delivered in Person:** Written bids, plainly marked "Bid for Bonds" should be addressed to the Board of Directors of Reunion Ranch Water Control and Improvement District, and if delivered in person, delivered to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 a.m., C.S.T., on Tuesday, November 15, 2016. All bids must be signed and submitted on the "Official Bid Form."

**Electronic Bidding Procedures:** Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 9:30 a.m., C.S.T., on Tuesday, November 15, 2016 as described in the "Official Notice of Sale" described below.

**Bids by Telephone or Facsimile:** Telephone bids will be accepted at (512) 275-7300, between 9:00 a.m. and 9:30 a.m., C.S.T. on the date of the bid opening. Facsimile bids will be accepted at (512) 275-7305 between 9:00 a.m. and 9:30 a.m., C.S.T., to the attention of Garry Kimball, on Tuesday, November 15, 2016, all as described in the "Official Notice of Sale" described below.

**Information:** The Bonds are more completely described in the "Official Notice of Sale," "Official Bid Form" and the "Preliminary Official Statement" which may be obtained from Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, Financial Advisor to the District.

The bidder whose bid is the winning bid in accordance with the Notice of Sale will be notified immediately and must submit a SIGNED Official Bid Form in connection with the sale by 9:30 a.m., C.S.T. on Tuesday, November 15, 2016, to Garry Kimball, Specialized Public Finance Inc. at (512) 275-7305. Additionally, pursuant to Texas Government Code Section 2252.908, the District may not award the Bonds to the winning bidder unless the bidder submits a Certificate of Interested Parties Form 1295, as prescribed by the Texas Ethics Commission, to the District, before the District formally votes to award the Bonds to the winning bidder.

The District reserves the right to reject any or all bids for the Bonds and to waive any and all irregularities except time of filing. This notice does not constitute an offer to sell the Bonds but is merely notice of sale of the Bonds as required by law. The offer to sell the Bonds will be made only by means of the "Official Notice of Sale," the "Preliminary Official Statement" and the "Official Bid Form."

Board of Directors

Reunion Ranch Water Control and  
Improvement District

LEGAL NOTICE

**OFFICIAL NOTICE OF SALE**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
*(A Political Subdivision of the State of Texas Located in Hays County, Texas)*  
**UNLIMITED TAX BONDS, SERIES 2016**

**Selling (Bids Due): Tuesday, November 15, 2016 at 9:30 AM, CST**  
**Award Expected: 2:00 P.M., CST**

The Bonds are obligations solely of Reunion Ranch Water Control and Improvement District (the "District") and are not obligations of the City of Dripping Springs, Texas; Dripping Springs Independent School District, Hays County, Texas; the State of Texas or any entity other than the District.

**THE DISTRICT EXPECTS TO DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.**

**THE SALE**

**BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING** . . . The Board of Directors (the "Board") of the District is inviting competitive bids for the purchase of \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"). Sealed bids may be submitted by either of three alternative procedures: (1) written bids; (2) electronic bids; or (3) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the District nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

The District and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of bids by telephone, facsimile or electronic options.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

**PROCEDURE NUMBER 1: SEALED, WRITTEN BIDS DELIVERED IN PERSON** . . . Bids, plainly marked "Bid for Bonds" should be addressed to "Board of Directors of Reunion Ranch Water Control and Improvement District" and should be delivered to the District's Financial Advisor, Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 9:30 A.M., CST, on November 15, 2016 ("the date of the bid opening").

**PROCEDURE NUMBER 2: ELECTRONIC BIDDING PROCEDURES** . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 9:30 A.M., CST, on the date of the bid opening. *Bidders must also submit, by 9:30 A.M., CST, on the date of the bid opening, SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.*

Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid through PARITY. Further information about PARITY, including any fee charged, may be obtained from Dalcomp/Parity, 395 Hudson Street, New York, New York 10014, attention: Jennifer Emery (212) 806-8304.

The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to the bidding system. An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. Neither Specialized Public Finance Inc. nor the District shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective bidder.

**All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale and Official Bid Form. If any provision of this Official Notice of Sale conflicts with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control.**

For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the District, as described under "Basis of Award" below.

**PROCEDURE NUMBER 3: BIDS BY TELEPHONE OR FACSIMILE** . . . Bidders must submit by 9:30 A.M., CST, on the date of the bid opening, SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) by 9:30 A.M., CST, on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 9:00 A.M. and 9:30 A.M., CST on the date of the bid opening.

Fax bids must be received between 9:00 A.M. and 9:30 A.M., CST, on the date of the bid opening at (512) 275-7305, attention: Garry Kimball.

**PLACE AND TIME OF BID OPENING** . . . The Board will publicly review and award the sale of the Bonds at the designated meeting place outside the boundaries of the District, at 2001 North Lamar Boulevard, Austin, Texas 78705 at 2:00 P.M., CST on Tuesday, November 15, 2016. All bids, including those being hand delivered, must be received by 9:30 A.M., CST on the date of the bid opening. Any bid received after the scheduled time for receipt will not be accepted by the Board and will be returned unopened.

**AWARD OF BONDS** . . . The District will take action to award the Bonds or reject any or all bids promptly upon the opening of bids. Upon awarding the Bonds to the winning bidder (the “Initial Purchaser”), the Board will adopt an order authorizing the issuance of the Bonds (the “Bond Order”). Sale of the Bonds will be made subject to the terms, conditions and provisions of the Bond Order, to which Bond Order reference is hereby made for all purposes. The District reserves the right to reject any and all bids and to waive any irregularities, except the time of filing.

**WITHDRAWAL OF THE BIDS** . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for six hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

**EXTENSION OF SALE DATE** . . . The District reserves the right to extend the date and/or time for the receipt of bids by giving notice, by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CST, on Monday, November 14, 2016 of the new date and time for receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

**NO MUNICIPAL BOND RATING OR INSURANCE** . . . The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

## THE BONDS

**DESCRIPTION OF BONDS** . . . The Bonds will be dated November 15, 2016, and interest will accrue from the date of Initial Delivery (as defined herein), will be payable on August 15, 2017, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity, and principal and interest will be paid by BOKF, NA (the “Paying Agent/Registrar”) which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See the Preliminary Official Statement (made a part hereof) for a more complete description of the Bonds, including redemption provisions. The Bonds will mature on August 15 in the years and amounts as follows:

### MATURITY SCHEDULE

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
2018	\$ 90,000	2030	\$ 155,000
2019	95,000	2031	160,000
2020	95,000	2032	170,000
2021	100,000	2033	175,000
2022	105,000	2034	185,000
2023	110,000	2035	190,000
2024	155,000	2036	195,000
2025	125,000	2037	200,000
2026	130,000	2038	205,000
2027	135,000	2039	210,000
2028	140,000	2040	215,000
2029	145,000	2041	255,000



**OPTIONAL REDEMPTION PROVISIONS** . . . Bonds maturing on and after August 15, 2024, are subject to redemption prior to maturity, at the option of the District, as a whole or, from time to time in part, on August 15, 2023, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District.

**MANDATORY SINKING FUND REDEMPTION** . . . If the successful bidder designates principal amounts to be combined into one or more term bonds ("Term Bonds"), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on August 15 of the first year which has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth above under the captioned "MATURITY SCHEDULE." Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par by lot or other customary method. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of Term Bonds that have been redeemed in such year and have not been the basis for any prior optional redemption.

**OTHER TERMS AND COVENANTS** . . . Other terms of the Bonds and various covenants of the District are contained in the Bond Order, which is described in the Preliminary Official Statement, to which reference is made for all purposes.

**SOURCE AND SECURITY OF PAYMENT** . . . The Bonds will constitute valid and legally binding obligations of the District, with principal and interest payable solely from the proceeds of a continuing, direct, annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs, Texas; Dripping Springs Independent School District; Hays County, Texas; the State of Texas or any entity other than the District.

**BOOK-ENTRY-ONLY SYSTEM** . . . The District intends to utilize the book-entry-only system of DTC. See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.

**REGISTERED FORM REQUIREMENT** . . . Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) must be in registered form in order for the interest payable on such obligations to be excluded from the Registered Owners' income for federal income tax purposes.

**SUCCESSOR PAYING AGENT/REGISTRAR** . . . Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or any state thereof subject to supervision or examination by federal or state banking authorities.

## CONDITIONS OF SALE

**TYPES OF BIDS AND INTEREST RATES** . . . The Bonds will be sold in one block on an "all or none" basis at a price of not less than ninety-seven percent (97%) of the par value. Bidders are to name the rate or rates of interest to be borne by the Bonds, provided that each interest rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1%. The net effective interest rate on the Bonds may not exceed a rate which is three percentage points (3.00%) above the highest "20 Bond Index" as reported by the "Bond Buyer" during the thirty (30) day period prior to the date of this Official Notice of Sale. Subject to the conditions below, no limitation will be imposed upon bidders as to the number of interest rates that may be used, but each rate of interest specified for the Bonds of any maturity shall not be less than the rate of interest specified for any earlier maturity and the highest interest rate bid may not exceed the lowest interest rate bid by more than 3.0% in rate. All Bonds maturing within a single year must bear the same rate of interest. No bids for the Bonds involving supplemental interest rates will be considered. Each bidder shall state in its bid the total and net interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid. No bid generating a cash premium greater than \$5,000 will be considered.

**BASIS OF AWARD** . . . For the purpose of awarding the sale of the Bonds, the interest cost of each bid will be computed by determining, at the interest rate or rates specified therein, the total dollar value of all interest on the Bonds from the date of Initial Delivery (defined below) to their respective maturities and adding thereto any discount bid, if any, or subtracting therefrom any premium bid, if any. The District reserves the right to reject any or all bids and to waive any and all irregularities except time of filing. Subject to such rights, the Bonds will be awarded to the bidder whose bid, under the above computation, produces the lowest net effective interest rate to the District. In the event mathematical discrepancies between the interest rate or rates and the interest costs determined therefrom, as both appear on the Official Bid Form, the bid will be solely governed by the interest rates shown on the Official Bid Form.

**ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM 1295:** New obligation of the District to receive information from winning bidder. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 ("the Interested Party Disclosure Act"), the District may not award the Bonds to the winning bidder unless the bidder has submitted a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District prior to such award, as prescribed by the Texas Ethics Commission ("TEC"). In the event that the bidder's bid for the Bonds is the best bid received, the District, acting through

its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid, and will obligate the bidder to promptly file a completed Disclosure Form, as described below, in order to complete the award.

**Process for completing the Disclosure Form.** Reference should be made to the Disclosure Form, the rules of the TEC with respect to the Disclosure Form (the “Disclosure Rules”) and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at [https://www.ethics.state.tx.us/whatsnew/elf\\_info\\_form1295.htm](https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm). For purposes of completing the Disclosure Form the Initial Purchaser will need the following information: (a) item 2 – name of governmental entity: Reunion Ranch WCID and (b) item 3 – the identification number assigned to this contract by the District: Reunion Ranch WCID UTB2016-Bid, and a description of the services to be provided under the contract: Purchase of Bonds. The Interested Party Disclosure Act and the Disclosure Rules require a business entity contracting with the District to complete the form at the TEC Internet “portal” that may be accessed at the url set forth above, and then print, sign, notarize and deliver the Disclosure Form by email to the District. Following the award of the Bonds, the District will acknowledge receipt of the completed Disclosure Form through the TEC website, as required by the law.

**Preparations for completion and the significance of the Reported Information.** In accordance with the Interested Party Disclosure Act, the information reported by the bidder **MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP**. No exceptions may be made to that requirement. The Interested Party Disclosure Act provides that such acknowledgment is made “under oath and under penalty of perjury.” Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no award will be made by the District of the Bonds until a completed Disclosure Form is received. The District reserves the right to reject any bid that is not accompanied by a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid.

**GOOD FAITH DEPOSIT** . . . A Good Faith Deposit, payable to the “Reunion Ranch Water Control and Improvement District” in the amount of \$74,000, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier’s check or certified check (which is to be retained uncashed by the District pending the Initial Purchaser’s compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The Good Faith Deposit may be provided to the District via wire transfer (the District will provide wire instructions to the winning bidder), or in the form of a certified or cashier’s check. The Good Faith Deposit will be retained by the District and (a) (i) if the Initial Purchaser utilizes a cashier’s check as its Good Faith Deposit, said cashier’s check will be returned to the Initial Purchaser after delivery of the Bonds, (ii) if the Initial Purchaser utilizes a wire transfer method for its Good Faith Deposit, said wire transfer will be applied to the purchase price at the delivery of the Bonds; or (b) will be retained by the District as liquidated damages if the Initial Purchaser defaults with respect to its purchase of the Bonds in accordance with its bid; or (c) will be returned to the Initial Purchaser if the Bonds are not issued by the District for any reason which does not constitute a default by the Initial Purchaser.

## **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL BOND** . . . Initial delivery (“Initial Delivery”) will be accomplished by the issuance of one initial bond payable in installments (collectively, the “Initial Bond”), either in typed or printed form, in the aggregate principal amount of \$3,700,000, registered in the name of the Initial Purchaser, manually signed by the President or Vice President and Secretary or Assistant Secretary of the Board, or executed by the facsimile signatures of the President or Vice President and Secretary or Assistant Secretary of the Board, and approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of Texas or his authorized deputy. Upon delivery of the Initial Bond, the Paying Agent/Registrar shall immediately cancel the Initial Bond and one definitive Bond for each maturity will be registered and delivered only to Cede & Co. in connection with DTC’s book-entry-only system. Initial Delivery will be at a corporate trust office of the Paying Agent/Registrar in Austin, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six (6) business days’ notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery can be made on or about December 22, 2016, and subject to the aforementioned notice it is understood and agreed that the Initial Purchaser will accept delivery of and make payment for the Bonds by 10:00 A.M., CST, on December 22, 2016, or thereafter on the date the Bonds are tendered for delivery, up to and including December 30, 2016. If for any reason the District is unable to make delivery on or before December 30, 2016, then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend its offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend its offer within six (6) business days thereafter, then its Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

**CUSIP NUMBERS** . . . It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale.

CUSIP identification numbers will be made available to the Initial Purchaser at the time the Bonds are awarded or as soon thereafter as practicable.

**CONDITIONS TO DELIVERY** . . . The obligation to take up and pay for the Bonds is subject to the following conditions: issuance of an approving opinion of the Attorney General of Texas, the Initial Purchaser's receipt of typewritten bonds, the legal opinion of Bond Counsel, and the No-Litigation Certificate, all of which are described herein, and the non-occurrence of the events described below under the caption "No Material Adverse Change." In addition, if the District fails to comply with its obligations described in the Preliminary Official Statement, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

**LEGAL OPINIONS** . . . The District will furnish without cost to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the unqualified approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, and, based upon an examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principal of equity and to the effect that the interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS."

**CERTIFICATION REGARDING OFFERING PRICE OF BONDS** . . . In order to provide the District with information to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Initial Purchaser will be required to complete, execute and deliver to the District (on or before the date of delivery of the Bonds) a certification regarding "issue price" substantially in the form accompanying this OFFICIAL NOTICE OF SALE. If the Initial Purchaser will not reoffer the Bonds for sale or has not sold a substantial amount of the Bonds of any maturity by the date of delivery, such certificate may be modified in a manner approved by the District. In no event will the District fail to deliver the Bonds as a result of the Initial Purchaser's inability to certify actual sales of Bonds at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute and deliver such a certificate by the date of delivery of the Bonds if its bid is accepted by the District. It will be the responsibility of the Initial Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

**TEXAS BOND REVIEW BOARD INFORMATION** . . . In order to provide the District with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the District with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

**NO-LITIGATION CERTIFICATE** . . . With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the best knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

**NO MATERIAL ADVERSE CHANGE** . . . The obligations of the District to deliver the Bonds and of the Initial Purchaser to accept delivery of and pay for the Bonds are subject to the condition that to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the conditions of the District from those set forth in or contemplated by the Official Statement, as it may have been supplemented or amended through the date of sale.

**QUALIFIED TAX-EXEMPT OBLIGATIONS** . . . The District expects to designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Code and will represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during the calendar year 2016 is not expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

## GENERAL CONSIDERATIONS

**RISK FACTORS** . . . The Bonds involve certain risk factors. Prospective bidders are urged to examine carefully the entire Preliminary Official Statement, made a part hereof, with respect to the investment security of the Bonds. Particular attention should be given to the information set forth therein under the caption “RISK FACTORS.”

**RESERVATION OF RIGHTS** . . . The District reserves the right to reject any and all bids and to waive any and all irregularities except time of filing.

**NOT AN OFFER TO SELL** . . . This Official Notice of Sale does not alone constitute an offer to sell the Bonds but is merely notice of sale of the Bonds. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form.

**FINAL OFFICIAL STATEMENT** . . . The District has prepared and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but does not presently intend to prepare any other document or version for such purpose except as described below. The District will be responsible for completing the Official Statement by inserting the interest rates and the purchase price bid by the Initial Purchaser and the initial public offering yields as provided by the Initial Purchaser to the District, and for preparing and inserting the final debt service schedule. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below in “– Changes to Official Statement.” Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of SEC Rule 15c2-12(b)(1), except for the omission of the foregoing items. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the purchaser on or after the sale date, the District represents the same to be complete as of such date, within the meaning of SEC Rule 15c2-12(e)(3). Notwithstanding the foregoing, the only representations concerning the absence of material misstatements or omissions from the Official Statement which are or will be made by the District are those described in the Preliminary Official Statement under “PREPARATION OF OFFICIAL STATEMENT – Certification of Official Statement.”

**CHANGES TO OFFICIAL STATEMENT** . . . If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to 15c2-12 of the federal Securities Exchange Act of 1934 (the “Rule”) (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described above. See “DELIVERY AND ACCOMPANYING DOCUMENTS – Conditions to Delivery.” The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all the Bonds have been sold to ultimate customers (but not more than 90 days after the date the District delivers the Bonds to the Initial Purchaser). In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

**DELIVERY OF OFFICIAL STATEMENTS** . . . The District will furnish Official Statements to the Initial Purchaser (and to each participating member of the underwriting syndicate, if any, of the Bonds, within the meaning of the Rule, designated by the Initial Purchaser), within seven (7) business days after the sale date. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may reasonably request as described above in “– Changes to Official Statement” above.

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE** . . . The offer and sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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. By submission of its bid, the Initial Purchaser represents that the sale of the Bonds in states other than the State of Texas will be made pursuant to exemptions from registration or qualification, or where necessary, the Initial Purchaser will register the Bonds in accordance with the securities laws of the state in which the Bonds are offered or sold. The District agrees to cooperate with the Initial Purchaser, at the Initial Purchaser’s written request and expense, in registering or qualifying the Bonds or obtaining an exemption from registration or qualification (other than filing a consent to service of process in such state), in any state where such action is necessary.

**CONTINUING DISCLOSURE** . . . The District will agree in the Bond Order to provide certain periodic information and notices of certain specified events in accordance with the Rule, as described in the Preliminary Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Initial Purchaser’s obligation to accept and pay for the Bonds is conditioned upon delivery to the Initial Purchaser(s) or its (their) agent of a certified copy of the Bond Order containing the agreement described under such heading.

**ADDITIONAL COPIES OF DOCUMENTS** . . . Additional copies of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form may be obtained from the Financial Advisor, Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.

Nathan Neese, President  
Board of Directors  
Reunion Ranch WCID

November 1, 2016

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**OFFICIAL BID FORM**

President and Board of Directors  
 Reunion Ranch Water Control and Improvement District  
 c/o Specialized Public Finance Inc.  
 248 Addie Roy Road, Suite B-103  
 Austin, Texas 78746

Board of Directors:

We have read in detail your Official Notice of Sale and accompanying Preliminary Official Statement dated November 1, 2016, relating the Reunion Ranch Water Control and Improvement District (the "District") and its \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"), as made a part hereof. We realize that the Bonds involve certain risk factors, and we have made inspections and investigations as we deem necessary relating to the District and to the investment quality of the Bonds.

For your legally issued Bonds, in the aggregate principal amount of \$3,700,000, we will pay you a price of \$ \_\_\_\_\_, representing approximately \_\_\_\_\_% of the par value. Such Bonds mature August 15, in each of the years and in the amounts and interest rates shown below:

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2018	\$ 90,000	%	2030	\$ 155,000	%
2019	95,000	%	2031	160,000	%
2020	95,000	%	2032	170,000	%
2021	100,000	%	2033	175,000	%
2022	105,000	%	2034	185,000	%
2023	110,000	%	2035	190,000	%
2024	115,000	%	2036	195,000	%
2025	125,000	%	2037	200,000	%
2026	130,000	%	2038	205,000	%
2027	135,000	%	2039	210,000	%
2028	140,000	%	2040	215,000	%
2029	145,000	%	2041	255,000	%

Of the principal maturities set forth in the table above, we have created term bonds as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

<u>Term Bonds Maturing August 15</u>	<u>Year of First Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %
_____	_____	\$ _____	_____ %

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TOTAL INTEREST COST FROM 12/22/2016	\$ _____
PLUS DOLLAR AMOUNT OF DISCOUNT	\$ _____
NET INTEREST COST	\$ _____
NET EFFECTIVE INTEREST RATE	_____ %

A wire transfer or a cashiers or certified check to the District in the amount of \$74,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the District as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

We understand the sale of the Bonds has not been registered under the United States 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; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. We hereby represent the sale of the Bonds in jurisdictions other than Texas will be made only pursuant to exemptions from registration or qualification and that where necessary, we will register or qualify the Bonds in accordance with the securities laws and regulations of the jurisdiction in which the Bonds are offered or sold.

We further understand that the District assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement or other information concerning the District and the Bonds to anyone other than to us.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

\_\_\_\_\_  
Name of Initial Purchaser or Manager

\_\_\_\_\_  
Authorized Representative

\_\_\_\_\_  
Phone Number

\_\_\_\_\_  
Signature

**Please check one of the options below regarding Good Faith Deposit:**

Submit by Wire Transfer

Submit by Bank Cashier's/Certified Check

**ACCEPTANCE CLAUSE**

The above and foregoing bid is hereby in all things accepted by Reunion Ranch Water Control and Improvement District this the 15<sup>th</sup> day of November, 2016.

ATTEST:

\_\_\_\_\_  
Secretary  
Board of Directors  
Reunion Ranch Water Control and Improvement District

\_\_\_\_\_  
President  
Board of Directors  
Reunion Ranch Water Control and Improvement District



**ISSUE PRICE CERTIFICATE**

The undersigned hereby certifies with respect to the sale of the Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 (the "Bonds"), issued in the aggregate principal amount of \$3,700,000, as follows:

- 1 The undersigned is the duly authorized representative of the purchaser (the "Initial Purchaser") of the Bonds from the District
- 2 All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Initial Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
- 3 Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Initial Purchaser to be equal to the fair market value of such maturity
- 4 Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
\$ 90,000	2018	%	\$ 155,000	2030	%
95,000	2019	%	160,000	2031	%
95,000	2020	%	170,000	2032	%
100,000	2021	%	175,000	2033	%
105,000	2022	%	185,000	2034	%
110,000	2023	%	190,000	2035	%
115,000	2024	%	195,000	2036	%
125,000	2025	%	200,000	2037	%
130,000	2026	%	205,000	2038	%
135,000	2027	%	210,000	2039	%
140,000	2028	%	215,000	2040	%
145,000	2029	%	255,000	2041	%

- 5 In the case of the Retained Maturities, the Initial Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
\$	2018	%	\$	2030	%
	2019	%		2031	%
	2020	%		2032	%
	2021	%		2033	%
	2022	%		2034	%
	2023	%		2035	%
	2024	%		2036	%
	2025	%		2037	%
	2026	%		2038	%
	2027	%		2039	%
	2028	%		2040	%
	2029	%		2041	%

- 6 The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the District in connection with the issuance of the Bonds and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the district that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

EXECUTED and DELIVERED this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

Name of Purchaser or Manager

By \_\_\_\_\_

Title. \_\_\_\_\_

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. 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.

**PRELIMINARY OFFICIAL STATEMENT**

**Dated November 1, 2016**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN INCLUDING THE ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

THE DISTRICT EXPECTS TO DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS."

**NEW ISSUE – Book-Entry Only**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
*(A Political Subdivision of the State of Texas Located in Hays County, Texas)*  
**UNLIMITED TAX BONDS, SERIES 2016**

**Dated: November 15, 2016**

**Due: August 15, as shown on the inside cover page**

**Interest to accrue from the date of Initial Delivery (as defined below)**

The bonds described above (the "Bonds") are obligations solely of Reunion Ranch Water Control and Improvement District (the "District") and are not obligations of the State of Texas ("State"), Hays County (the "County"), the City of Dripping Springs (the "City"), Dripping Springs Independent School District or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

**PAYMENT TERMS . . .**Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Austin, Texas, (the "Paying Agent" or the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the date of Initial Delivery and will be payable each February 15 and August 15, commencing August 15, 2017, until maturity or prior redemption. Interest on the Bonds will be payable on the basis of a 360-day year consisting 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 provided on page 2.

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 "THE BONDS – Book-Entry-Only System."

**PURPOSE . . .** Proceeds of the Bonds will be used to finance the District's share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C. The remaining Bond proceeds will be used to: (i) capitalize interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds.

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**CUSIP PREFIX: 76131M**  
**MATURITY SCHEDULE**  
**SEE INSIDE COVER PAGE**

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**LEGALITY . . .** The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel.

**DELIVERY . . .** Delivery of the Bonds is expected through the facilities of DTC on December 22, 2016 ("Initial Delivery").

**BIDS DUE ON TUESDAY, NOVEMBER 15, 2016, BY 9:30 AM, CST**

**MATURITY SCHEDULE**

8/15 Maturity	Principal Amount	Interest Rate	Initial Yield <sup>(a)</sup>	CUSIP Numbers <sup>(b)</sup>
2018	\$ 90,000			
2019	95,000			
2020	95,000			
2021	100,000			
2022	105,000			
2023	110,000			
2024	115,000			
2025	125,000			
2026	130,000			
2027	135,000			
2028	140,000			
2029	145,000			
2030	155,000			
2031	160,000			
2032	170,000			
2033	175,000			
2034	185,000			
2035	190,000			
2036	195,000			
2037	200,000			
2038	205,000			
2039	210,000			
2040	215,000			
2041	255,000			

**(Interest to accrue from the date of Initial Delivery)**

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**REDEMPTION PROVISIONS . . .** The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2024 in whole or from time to time in part, on August 15, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term Bonds. See “THE BONDS – Redemption.”

*[The remainder of this page intentionally left blank]*

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document constitutes a Preliminary Official Statement of the District 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.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “FINAL OFFICIAL STATEMENT” of the District with respect to the Bonds, as that term is defined in the Rule.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the District 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. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND, CONSEQUENTLY, HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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The cover and inside cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of 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 "Initial Purchaser") bearing the interest rates shown on the inside cover page hereof, at a price of approximately \_\_\_\_\_% of the par value thereof which resulted in a net effective interest rate of \_\_\_\_\_% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the "IBA" method).

**PRICES AND MARKETABILITY** . . . The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser 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 Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

## NO MUNICIPAL BOND RATINGS OR INSURANCE

The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

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**OFFICIAL STATEMENT SUMMARY**

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

**THE DISTRICT**

- THE ISSUER**..... Reunion Ranch Water Control and Improvement District (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective August 15, 2005 and confirmed pursuant to an election held within the District on November 7, 2006. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”
- LOCATION**..... The District is located in Hays County approximately 14 miles west of IH-35 and lies wholly inside of the extraterritorial jurisdiction of the City of Dripping Springs, Texas and within the Boundaries of the Dripping Springs Independent School District. The District is located approximately six miles south of State Highway 290, off Ranch-to-Market Road 1826.
- The District is currently comprised of approximately 524 acres being developed as Reunion Ranch, a single-family residential community. See “THE DISTRICT – Location” and “LOCATION MAP.”
- THE DEVELOPER** ..... The developer currently active within the District is Taylor Morrison of Texas, Inc. (“Taylor Morrison” or the “Developer”), a Texas corporation. See “THE DEVELOPER – Description of Developer” and “THE DISTRICT – Current Status of Development.” See “DESCRIPTION OF OTHER LANDOWNERS.”
- DEVELOPMENT WITHIN THE DISTRICT** ..... Of the approximately 524 acres within the District, approximately 318.865 acres have been developed with utility facilities as a single family residential subdivision including an approximately 2 acre amenity center. As of September 1, 2016, the following sections have been developed with utility facilities: Sections 1 and 2; Phase 2, Sections 1, 2 and 3. As of September 1, 2016, the development in the District consisted of 150 completed homes (of which 140 are occupied and 10 are unoccupied), 35 homes under construction and 115 vacant developed lots.
- To date, the Developer has advanced funds in the approximate amount of \$11,900,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer approximately \$5,960,000 for additional water, wastewater and drainage facilities which have been constructed to date. See “THE DISTRICT – Current Status of Development.”
- HOMEBUILDERS**..... Taylor Morrison of Texas, Inc. is the only current homebuilder in the District. The homes range in price from \$400,000 to \$565,000, with square footage ranging from 2,000 to 4,500. See “THE DEVELOPER – Homebuilders within the District.”

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## THE BONDS

DESCRIPTION .....	The Bonds in the aggregate principal amount of \$3,700,000 mature serially in varying amounts on August 15 of each year from 2018 through 2041, inclusive, in the principal amounts set forth on the inside cover page hereof. Interest accrues from the date of Initial Delivery and is payable August 15, 2017 and each February 15 and August 15 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General Description.”
REDEMPTION .....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2024 in whole or from time to time in part, on August 15, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term Bonds. See “THE BONDS – Redemption.”
SOURCE OF PAYMENT .....	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” <b>The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs; Dripping Springs Independent School District; Hays County, Texas; the State of Texas; or any entity other than the District.</b> See “THE BONDS – Source of and Security for Payment.”
PAYMENT RECORD .....	The Bonds constitute the second installment of bonds issued by the District for construction of the water, sanitary sewer and drainage system (the “System”). See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued.”
AUTHORITY FOR ISSUANCE .....	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 6, 2012, the approving order of the TCEQ and an order (the “Bond Order”) adopted by the Board of Directors of the District on the date of the sale of the Bonds. See “THE BONDS – Authority for Issuance.”
USE OF PROCEEDS .....	<p>The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C.</p> <p>The remaining Bond proceeds will be used to: (i) capitalize interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”</p>
BONDS AUTHORIZED BUT UNISSUED .....	At an election held within the District on November 6, 2012, the voters within the District approved the issuance of \$30,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$22,800,000 remaining in authorized but unissued bonds. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. The District has not issued any park and recreational facilities bonds or refunding bonds. See “FINANCIAL STATEMENT – Outstanding Bonds” and “THE BONDS – Future Debt.”
NO MUNICIPAL BOND RATING OR INSURANCE	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.



<b>QUALIFIED TAX-EXEMPT OBLIGATIONS.....</b>	The District expects to designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and have represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2016 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
<b>BOND COUNSEL &amp; DISCLOSURE COUNSEL.....</b>	McCall, Parkhurst & Horton L.L.P., Austin, Texas
<b>GENERAL COUNSEL.....</b>	Willatt & Flickinger, PLLC, Austin, Texas
<b>FINANCIAL ADVISOR .....</b>	Specialized Public Finance Inc., Austin, Texas
<b>ENGINEER .....</b>	Murfee Engineering Company, Austin, Texas

**RISK FACTORS**

The purchase and ownership of the Bonds involve certain risk factors and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned “RISK FACTORS,” with respect to investment in the Bonds.

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**SELECTED FINANCIAL INFORMATION**  
**(Unaudited as of September 28, 2016)**

2014 Certified Taxable Assessed Valuation .....	\$ 20,303,767	(a)
2015 Certified Taxable Assessed Valuation .....	\$ 39,867,562	(a)
2016 Certified Taxable Assessed Valuation .....	\$ 68,523,778	(a)
Estimated Taxable Assessed Valuation (as of September 28, 2016).....	\$ 76,000,000	(b)
Gross Direct Debt Outstanding .....	\$ 7,200,000	(c)
Estimated Overlapping Debt.....	<u>2,937,458</u>	(d)
Gross Direct Debt Outstanding and Estimated Overlapping Debt .....	\$ 10,137,458	
Ratios of Gross Direct Debt Outstanding to:		
2016 Certified Taxable Assessed Valuation .....		10.51%
September 28, 2016 Estimated Certified Taxable Assessed Valuation.....		9.47%
Ratios of Gross Direct Debt Outstanding and Estimated Overlapping Debt to:		
2016 Certified Taxable Assessed Valuation .....		14.79%
September 26, 2016 Estimated Taxable Assessed Valuation.....		13.34%
2016 Tax Rate:		
Debt Service.....	\$ 0.3500	
Maintenance & Operation.....	<u>0.5250</u>	
Total.....	\$ 0.8750	(e)
General Operating Fund Balance as of September 7, 2016 (unaudited) .....	\$ 292,804	
Debt Service Fund Balance as of September 7, 2016 (unaudited).....	\$ 465,372	(f)
Capital Projects Fund Balance as of September 7, 2016 (unaudited).....	\$ 389,980	
Projected Average Annual Debt Service Requirement on the Bonds and outstanding debt (2017-2041) .....	\$ 477,035	(c)
Projected Maximum Annual Debt Service Requirement on the Bonds and outstanding debt (2036) ..	\$ 512,200	(c)
Tax Rates Required to Pay Projected Average Annual Debt Service (2017-2041) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation.....	\$	0.7328
Tax Rates Required to Pay Projected Maximum Annual Debt Service (2036) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation.....	\$	0.7869
Number of Active Connections as of September 1, 2016:		
Total Developed Single Family Lots .....	300	
Single Family Homes– Completed & Occupied .....	140	
Single Family Homes – Completed & Unoccupied .....	10	
Single Family Homes – Under Construction .....	35	
Single Family – Vacant Developed Lots .....	115	
Estimated Population as of September 1, 2016 .....	490	(g)

(a) Assessed valuation of the District as certified by the Hays Central Appraisal District (“HCAD”). See “TAXING PROCEDURES.”

(b) Estimated Taxable Assessed Valuation as of September 28, 2016, as provided by HCAD is included solely for purposes of illustration.

(c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”

(d) See “DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt.”

(e) The District levied a 2016 total tax rate of \$0.8750. See “Table 9 – District Tax Rates.”

(f) Includes \$216,939 in capitalized interest on the Bonds (estimated). Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District’s Debt Service Fund.

(g) Based upon 3.5 residents per completed and occupied single family home.

**OFFICIAL STATEMENT  
Relating to**

**\$3,700,000  
REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
(A Political Subdivision of the State of Texas Located in Hays County, Texas)  
UNLIMITED TAX BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the Reunion Ranch Water Control and Improvement District (the "District"), a political subdivision of the State of Texas (the "State"), of its \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 6, 2012, and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Willatt & Flickinger, PLLC, 12912 Hill Country Boulevard, Suite F-232 Austin, Texas 78738 or from the District's Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

**THE BONDS**

**GENERAL DESCRIPTION . . .** The Bonds are dated November 15, 2016 and will mature on August 15 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the date of Initial Delivery, will be paid on August 15, 2017 and each February 15 and August 15 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar").

**REDEMPTION . . .** The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2024, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 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).

*Notice of Redemption . . .* At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will

have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**DTC REDEMPTION PROVISION . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system ("Book-Entry-Only-System") is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants.

Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

**TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** The District is initially utilizing the Book-Entry-Only System of DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

*Payment . . .* Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

*Registration . . .* If the Book-Entry-Only System is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in the denominations of \$5,000 or any integral multiple thereof.

*Limitation on Transfer of Bonds . . .* Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15th) calendar day of the month (whether or not a business day) preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

*Replacement Bonds . . .* If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

**AUTHORITY FOR ISSUANCE . . .** At an election held within the District on November 6, 2012, voters within the District authorized a total of \$30,000,000 in unlimited tax bonds for water, wastewater and drainage facilities. The Bonds constitute the second installment of bonds issued by the District. After the sale of the Bonds, \$22,800,000 principal amount of District bonds will remain authorized but unissued for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. The District has not issued any park and recreational facilities bonds or refunding bonds. The Bonds are issued pursuant to the terms and provisions of the Bond Order: Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of the TCEQ dated October 17, 2016.

**SOURCE OF AND SECURITY FOR PAYMENT . . .** The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if Dripping Springs dissolves the District and assumes all debts and liabilities of the District.

Under Texas law, the District may be dissolved by the City of Dripping Springs (the "City") without the consent of the District or its residents. When the District is abolished, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs; Dripping Springs Independent School District; Hays County, Texas; the State of Texas; or any political subdivision or entity other than the District.

**PAYMENT RECORD . . .** The Bonds constitute the second installment of bonds issued by the District. The District has previously issued \$3,500,000 Unlimited Tax Bonds, Series 2015 (the "Outstanding Bonds"). The District has not defaulted on the payment of principal of or interest on the Outstanding Bonds

**FLOW OF FUNDS . . .** The Bond Order creates the establishment and maintenance by the District of a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of water control and improvement districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

*Debt Service Fund . . .* The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing accrued interest, if any, and approximately twenty-four months' capitalized interest on the Bonds, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

*Capital Projects Fund . . .* The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then in the discretion of the District to transfer such unexpended proceeds or income to the Debt Service Fund or as otherwise authorized by the TCEQ.

**DEFEASANCE OF OUTSTANDING BONDS . . . General . . .** The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by

reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) non-callable 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds..

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

*Retention of Rights . . .* To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

*Investments . . .* Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

**PAYING AGENT/REGISTRAR . . .** Principal of and semiannual interest on the Bonds will be paid by BOKF, NA having an office for payment in Austin, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each registered owner by first-class mail, postage prepaid.

**RECORD DATE . . .** The Record Date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the last calendar day of the month (whether or not a business day) preceding such interest payment date.

**ISSUANCE OF ADDITIONAL DEBT . . .** According to the District's engineer, the \$22,800,000 in principal amount of bonds authorized but unissued (after issuance of the Bonds), should be sufficient to reimburse the developer for the water, wastewater and drainage development within the District. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." The District has not issued any park and recreational facilities bonds or refunding bonds. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "RISK FACTORS." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of 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.

**LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a water control and improvement 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." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a water control and improvement district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations, or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

**SPECIFIC TAX COVENANTS . . .** In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may omit to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

**ADDITIONAL COVENANTS . . .** The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

**REMEDIES IN EVENT OF DEFAULT . . .** The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 51 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. 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. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. CT. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be 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. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**CONSOLIDATION . . .** A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water system with the water system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water system with any other district.

**ANNEXATION . . .** The District lies within the extraterritorial jurisdiction of the City of Dripping Springs, Texas ("Dripping Springs"). Under Texas law, Dripping Springs cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for the District to be annexed, and Dripping Springs does annex, Dripping Springs will assume the District's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by Dripping Springs is a policy-making matter within the discretion of the Mayor and City Council of Dripping Springs and therefore, the District makes no representation that Dripping Springs will ever annex the District and assume its debt.

**ALTERATION OF BOUNDARIES . . .** In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

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

**AMENDMENTS TO THE BOND ORDER . . .** The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

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## BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and 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 procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 the Bonds, in the aggregate principal amount of such issue, 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 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District

as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, 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/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, 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/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

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**USE AND DISTRIBUTION OF BOND PROCEEDS**

The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$2,685,727 is estimated to be required for construction costs, and \$1,014,272 is estimated to be required for non-construction costs including \$216,939 of capitalized interest.

**SUMMARY OF COSTS**

		<u>District's Share</u>
<b>I.</b>	<b><u>CONSTRUCTION COSTS</u></b>	
	A. Developer Contribution Items	
	1. Reunion Ranch Phase 1B – Water, Wastewater and Drainage.....	\$ 384,583
	2. Reunion Ranch Phase 1C – Water, Wastewater and Drainage.....	249,667
	3. Engineering (15.00% of Items Nos. 1-2).....	95,137
	Total Developer Costs.....	<u>\$ 729,387</u>
	B. District Items	
	1. Reunion Ranch Phase 1A – Wastewater Treatment Plant.....	\$ 2,039,674
	2. Engineering (15.00% of item No. 1).....	305,951
	Total District Costs.....	<u>\$ 2,345,625</u>
	<b>Total Construction Costs (80.41% of Bond Issue).....</b>	<b>\$ 3,075,012</b>
	<b>Less: Surplus Funds Balance.....</b>	<b><u>(389,285)</u></b>
	<b>Net Construction Costs (72.59% of BIR).....</b>	<b>\$ 2,685,727</b>
<b>II.</b>	<b><u>NON-CONSTRUCTION COSTS</u></b>	
	A. Legal Fees (1.25%).....	\$ 46,250
	B. Fiscal Agent Fees (1.5%).....	55,500
	C. Interest:	
	a. Capitalized Interest.....	216,239
	b. Developer Interest <sup>(a)</sup> .....	486,761
	D. Bond Discount (3%).....	111,000
	E. Bond Issuance Expenses.....	35,573
	F. Bond Application Report.....	50,000
	J. Attorney General Fee (0.10%).....	3,700
	K. TCEQ Fee (0.25%).....	9,250
	L. Contingency <sup>(b)</sup> .....	<u>0</u>
	<b>Total Non-Construction Costs.....</b>	<b>\$ 1,014,273</b>
	 <b>TOTAL BOND ISSUE REQUIREMENT.....</b>	 <b>\$ 3,700,000</b>

- (a) Estimated at an interest rate of 4.75% and a projected funding date of November 1, 2016. The District has requested to reimburse more than two years of interest in accordance with 30 TAC § 293.50(b). Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.
- (b) The TCEQ, in its approval of the issuance of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

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## RISK FACTORS

**GENERAL . . .** The Bonds, which are obligations of the District and are not obligations of the State of Texas; Hays County, Texas; the City of Dripping Springs; Dripping Springs Independent School District, or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See “THE BONDS – Source of and Security for Payment.” The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. 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 property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “Registered Owners’ Remedies” below.

**FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . *Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:*** A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers 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 existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and Homebuilders are able to obtain financing for development and construction costs. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. 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 development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

***Competition . . .*** The demand for single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of the Developer in the sale of 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 building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

***Developer under No Obligation to the District:*** There is no commitment from, or obligation of, any developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner’s right to sell its land, including any developer. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPER” and “TAX DATA – Principal Taxpayers.”

***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 the District property owners to pay their taxes. The 2016 Certified Assessed Valuation is \$68,523,778 (see “FINANCIAL STATEMENT”). After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement will be \$512,200 (2036) and the Projected Average Annual Debt Service Requirement will be \$477,035 (2017 through 2041, inclusive). A tax rate of \$0.7869/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Projected Maximum Annual Debt Service Requirement of \$512,200, and a tax rate of \$0.7328/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of \$477,035 based upon the 2016 Certified Taxable Assessed Valuation.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**TAX COLLECTIONS 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 cumbersome, time-consuming and expensive collection procedures or 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 STATEMENT – Estimated Overlapping Debt Statement"), by the current aggregate tax rate being levied against the property, and by other factors (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). 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 court could approve a confirmation plan which allows the debtor to make installment payments on delinquent taxes for up to six years and a bankruptcy court may reduce the amount of any taxes assessed against the debtor, including those that have already been paid.

**HOUSING MARKET, VOLATILITY AND RECENT FORECLOSURES . . .** In past years, disruptions in the housing market have led to a significant number of foreclosures on single family homes nationally. In the District, there were no posted foreclosures on single-family homes by the Hays County Clerk's Office as of October 7, 2016. No assurance can be given whether the number of foreclosures will decrease or increase or that market conditions will improve.

**REGISTERED OWNERS' REMEDIES . . .** In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest 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. Although the registered owners could obtain a judgment against the District, such a judgment 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 in order 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 laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

**BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS . . .** The enforceability of the rights and remedies of registered owners may be limited 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 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed 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 (1) is specifically 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 negotiations are impracticable. Under Texas law a water control and improvement district, 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, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving 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 applicable, the concomitant delay and loss of remedies to the registered owners 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 a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

**THE EFFECT OF THE FINANCIAL INSTITUTIONS ACT OF 1989 ON TAX COLLECTIONS OF THE DISTRICT . . .** The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, 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 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.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorneys fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and 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.

**MARKETABILITY . . .** The District has no understanding with the Initial Purchaser 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 for 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 Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

**FUTURE DEBT . . .** The District has reserved in the Bond Order the right to issue the remaining \$22,800,000 authorized but unissued unlimited tax bonds (for water, wastewater and drainage facilities) and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$22,800,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District's engineer, the remaining authorization should be sufficient to reimburse the Developer for the development within the District. See "THE SYSTEM."

To date, the Developer has advanced a total of approximately \$11,900,000 to construct utility facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer approximately \$5,960,000 for additional facilities which have been constructed to date.

The District anticipates that it may issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$22,800,000), in installments over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER – Utility Development Agreements." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission 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." See "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED."

**GOVERNMENTAL APPROVAL . . .** As required by law, engineering plans, specifications and an estimate of construction costs for the facilities and services to be purchased or constructed by the District with the proceed of the Bonds have been approved, subject to certain condition, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The TCEQ approved the issuance of the Bonds by an order signed October 17, 2016. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

**ENVIRONMENTAL REGULATION . . .** Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution; and
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water 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 as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Austin area. Under the Clean Air Act ("CAA") Amendments of 1990, the five-county "Austin Area" – Travis, Hays, Williamson, Bastrop, and Caldwell counties – has recently been redesignated by the EPA as an attainment area. The Austin Area entered into an early action compact (EAC) with the TCEQ and EPA which demonstrates attainment and maintenance of the 8-hour ozone standard. EACs allow regions that are in nonattainment or near nonattainment for ozone under the federal CAA to elect to use their knowledge of local conditions to determine which ozone control strategies should be implemented in their area, as opposed to having rules dictated by state and federal agencies.

The EPA signed a consent decree with several environmental organizations which bound the EPA to designating nonattainment areas for 8-hour nonattainment. The Austin Area took early action with an EAC on November 17, 2004 to reduce its emissions so as not to be designated nonattainment. Voluntary reductions have focused on reducing the number of vehicles on Austin Area roads, since vehicles are the area's main source of air pollution.

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC "CAAP" which includes control measures and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

On November 26, 2014, the EPA announced a new proposed ozone National Ambient Air Quality Standards (NAAQS) range of between 65-70 parts per billion. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

Should the Austin Area fail to achieve attainment under an EPA NAAQS, or should the Austin Area fail to satisfy a then effective State Implementation Plan (SIP) (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of the nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

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

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the District to more than sixty (60) end users for consumption will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additionally, TCEQ is initiating rule changes to Chapter 290, Public Drinking Water, to implement the federal Stage 2 Disinfection Byproducts Rule (DBP2), Long Term Stage 2 Enhanced Surface Water Treatment

Rule (LT2), and Ground Water Rule (GWR). EPA adopted the GWR on December 31, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On August 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the District's ability to obtain TPDES permits and maintain those permits. The District may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties. Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

**Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.**

**DROUGHT CONDITIONS . . .** Central Texas, like other areas of the State, has experienced extreme drought conditions within the last several years. The District adopted a water conservation plan and currently has implemented water restrictions for residents of the District. The West Travis County Public Utility Agency provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions resume water usage, rates and water revenues could be impacted.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.



## THE DISTRICT

**GENERAL** . . . Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended, the District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater. 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 also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ, and is located entirely within the extraterritorial jurisdiction of Dripping Springs. Fire services are provided to residents and property owners of the District by Hays County ESD #6.

**MANAGEMENT** . . . *Board of Directors.* The District is governed by a Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Tuesday after the first Monday in November in each even numbered year. All of the directors listed below reside or own property in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Nathan Neese	President	2018
Vince Terracina	Vice President	2020
David Bosco, Jr.	Secretary	2018
George Sykes	Assistant Secretary	2020
Mike Ehrhardt	Assistant Secretary	2018

**Consultants:**

*Tax Assessor/Collector* . . . Land and improvements in the District are being appraised by the Hays Central Appraisal District ("HCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Hays County Tax Assessor/Collector, Ms. Luanne Carraway, currently serves the District in this capacity under contract.

*Operator* . . . The District contracts with the Severn Trent Environmental Services to serve as operator for the District.

*Bookkeeper* . . . Bott & Douthitt, PLLC ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 60 other special districts.

*Engineer* . . . The District's consulting engineer is Murfee Engineering Company (the "Engineer"). Such firm serves as consulting engineer to 34 other special districts.

*Financial Advisor* . . . Specialized Public Finance Inc. serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

*Bond Counsel and Disclosure Counsel* . . . McCall, Parkhurst & Horton, L.L.P., Austin, Texas serves as Bond Counsel and Disclosure Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel and Disclosure Counsel are contingent upon the sale of and delivery of the Bonds.

*General Counsel* . . . The District employs Willatt & Flickinger, PLLC as general counsel.

**LOCATION** . . . The District is located in Hays County approximately 14 miles west of IH-35 and lies wholly inside of the extraterritorial jurisdiction of the City of Dripping Springs, Texas and within the Boundaries of the Dripping Springs Independent School District. The District is located approximately six miles south of State Highway 290, off Ranch-to-Market Road 1826. The District is currently comprised of approximately 524 acres being developed as Reunion Ranch, a single-family residential community. See "LOCATION MAP."

**UNDEVELOPED ACREAGE** . . . There are approximately 205 developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities as of September 1, 2016. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT – Status of Development."

**CURRENT STATUS OF DEVELOPMENT** . . . Of the approximately 524 acres within the District, approximately 318.865 acres have been developed. As of September 1, 2016, approximately 205 acres remain to be developed with utility facilities as the single family residential homes. As of September 1, 2016, the following sections have been developed with utility facilities: Sections 1 and 2; Phase 2, Sections 1, 2 and 3. As of this same date, the development in the District consisted of 150 completed homes (of which 140 are occupied and 10 are unoccupied), 35 homes under construction and 115 vacant lots.

To date, the developer has advanced funds in the approximate amount of \$11,900,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the developer approximately \$5,960,000 for additional water, wastewater and drainage facilities which have been constructed to date.

The chart below reflects the status of development as of September 1, 2016:

	<u>Net Acreage</u>
<b>A. Sections Developed with Utility Facilities</b>	
Sections 1 and 2; Phase 2, Sections 1-3	318.865 <sup>(a)</sup>
<b>Total Developed with Utility Facility or Under Construction</b>	<u>318.865</u>
<b>B. Remaining Developable Acreage</b>	205.205
<b>Total Developable Acreage</b>	<u>524.07</u>
<b>Total</b>	<u>524.07</u>

(a) Includes an approximately 2 acre amenity center. Also includes approximately 53.635 acres developed by the Developer but owned by Hays Reunion Ranch, L.P. See "THE DEVELOPER – Description of Developer."

**FUTURE DEVELOPMENT . . .** There are remaining approximately 205 acres of land, as yet undeveloped with water, sewer & drainage facilities to support single family residential development. The initiation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, general and economic conditions which would affect any party's ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption "RISK FACTORS." If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$22,800,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acreage within the District. See "THE BONDS – Issuance of Additional Debt." The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that any future development will occur.

**ANNEXATION OF THE DISTRICT . . .** The District lies within the extraterritorial jurisdiction of the City of Dripping Springs. See "THE BONDS – Annexation" for a discussion of the ability of the City of Dripping Springs to annex the District.

**CONSENT AGREEMENT AND DEVELOPMENT AGREEMENT . . .** Effective August 15, 2005, the District entered into that certain Agreement Concerning Creation and Operation of the District (the "Consent Agreement") with the City and Hays Reunion Ranch, L.P., a Texas limited partnership ("Hays Reunion Ranch"), governing certain aspects of development within the District, including certain aspects of the construction, operation, maintenance and inspection of District utility facilities; the issuance of bonds; conversion, annexation or dis-annexation by the District and annexation of the District by the City. Additionally, as contemplated by the Consent Agreement, the City and Hays Reunion Ranch entered into that certain Development Agreement dated as of February 7, 2012 (the "Development Agreement") further governing certain aspects of development within the District such as environmental protection, deed restrictions, lighting and signage. Hays Reunion Ranch has subsequently assigned to the Developer certain of its right, title and interest in, to and under the Consent Agreement, effective April 2, 2012. Additionally, Hays Reunion Ranch has partially assigned to the Developer certain of its right, title and interest in, to and under the Development Agreement pursuant to three (3) separate partial assignment instruments, effective April 2, 2012; May 5, 2014 and January 30, 2015, respectively, with additional partial assignments contemplated upon the closing of additional takedowns under the Land Purchase Agreement (as defined herein).

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## THE DEVELOPER

**GENERAL . . .** In general, the activities of a developer in a utility district, such as the District, include purchasing the land within the utility district; coordinating the design of the subdivision; coordinating the design of the utilities and streets to be constructed in the subdivision; coordinating the design of any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of the improvements within the subdivisions, including water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, cable television, and electric service; and selling improved lots and commercial reserves to homebuilders, other developers, or other third parties. The relative success or failure of a developer to perform such activities will have a profound effect on the security of the bonds issued by the District. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily the major taxpayer within the district during the development phase of the property.

**DESCRIPTION OF DEVELOPER . . .** The developer currently active within the District is Taylor Morrison of Texas Inc. ("Taylor Morrison" or the "Developer"), a Texas corporation, controlled by Taylor Morrison Home Corp., a publicly-traded homebuilder with operations in Texas, Arizona, North Carolina, California, Colorado, Florida, Georgia and Illinois. The Developer has purchased certain acreage within the District pursuant to that certain Agreement of Sale and Purchase, dated as of November 23, 2011, as thereafter amended (the "Land Purchase Agreement"), pursuant to which Developer agreed to purchase from Hays Reunion Ranch, approximately 472.46 acres of land in separate takedown parcels. According to the Developer, as of September 1, 2016, the Developer has closed upon takedowns constituting approximately 265.19 acres within the District and will own all of the approximately 524 acres within the District upon closing the final takedown, with the exception of approximately 53.635 acres of land retained by Hays Reunion Ranch, L.P. under the Land Purchase Agreement, which have been developed by the Developer and as such which will be sold primarily as custom lots by Hays Reunion Ranch (this approximately 53.635 acres and the approximately 265.19 acres closed on by the Developer, less the approximately 22.72 undevelopable acres, comprise the approximately 318.865 acres developed with utility facilities. See "THE DISTRICT – Current Status of Development." According to the Developer, the Developer is in compliance with the terms and conditions of the Land Purchase Agreement.

**ACQUISITION AND DEVELOPMENT FINANCING . . .** Acquisition and development of single-family residential property within the District has been provided by the Developer through its operations.

**HOMEBUILDERS WITHIN THE DISTRICT . . .** There is currently one homebuilder in the District, Taylor Morrison of Texas Inc. The homes range in price from \$400,000 to \$565,000, with square footage ranging from 2,000 to 4,500.

**UTILITY CONSTRUCTION AGREEMENT . . .** The District entered into a utility construction agreement (the "Utility Construction Agreement") with Pine Valley Reunion Ranch, L.P., a Texas limited partnership ("Pine Valley"), dated November 11, 2005 (the "Original Utility Construction Agreement"), governing the development of water, wastewater and drainage facilities and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. Pine Valley subsequently assigned all of its right, title and interest in, to and under the Original Utility Construction Agreement to Hays Reunion Ranch, which in turn assigned all of its right, title and interest in, to and under the Original Utility Construction Agreement to the Developer on or about April 2, 2012. Thereafter, the District and Developer entered into a new utility construction agreement, effective April 25, 2012, revising and restating the Original Utility Construction Agreement in its entirety.

**AGRICULTURAL WAIVER . . .** Much of the undeveloped acreage within the District is subject to an agricultural exemption; however, the Developer has executed an agreement, which is recorded in the real property records of Hays County, and are covenants running with the land, waiving the right to have the land located within the District classified as agricultural, open-space or timberland for purposes of District taxes. In addition, the Developer has waived the right to have the lots and houses (if any) in the District classified as business inventory for purposes of District taxes. The agreement may not be modified without the approval of the TCEQ and are binding on purchasers of such land from the Developer. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

## THE SYSTEM

**REGULATION . . .** The water, wastewater and storm drainage facilities (the "System"), the purchase, acquisition and construction of which will be permanently financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Hays County and Dripping Springs. According to Murfee Engineering Company (the "Engineer"), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the U.S. Environmental Protection Agency and the TCEQ.

**WATER SUPPLY AND DISTRIBUTION . . .** The District receives its treated water from the West Travis County Public Utility Agency ("WTCPUA"), successor to the Lower Colorado River Authority ("LCRA"). Pursuant to the Second Amendment to the Water

Services Agreement dated March 28, 2014, the WTCPUA is obligated to provide up to 603,692 gallons per day of treated water to the District. The District's engineer estimates that this amount of water would be sufficient to serve up to 524 equivalent single-family connections.

**WASTEWATER COLLECTION AND TREATMENT . . .** Wastewater treatment for the District is provided by a 0.05 million gallon per day (MGD) wastewater treatment plant. Texas Pollutant Discharge Elimination System permit number WQ0014480001 authorizes a discharge of 0.05 MGD, with disposal via drip irrigation. Based upon a conservative design factor of 150 gallons per day per connection, the District's existing treatment capacity is sufficient to serve up to 333 single family connections. The District is in the preliminary planning stages for a 2<sup>nd</sup> wastewater treat plant to be funded from future Developer advances (and ultimately purchased by the District with the proceeds of future District bonds).

**STORM WATER DRAINAGE . . .** Storm water within the District generally drains through roadside swales with street and driveway culverts and ribbon curbing, eventually discharging into tributaries that drain into Bear Creek.

**100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . .** According to the Engineer, 22.7 acres within the District are currently located in the floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated June 16, 1993 for Hays County, as amended on April 24, 2014.

**WATER, WASTEWATER AND DRAINAGE OPERATIONS:**

**TABLE 1 – RATE AND FEE SCHEDULE**

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the monthly rates and fees for the District's water and sewer service which are currently in effect.

Monthly Base Charge – Water: \$40.00

Water Usage Charge

<u>Gallons</u>		
0-10,000 Gallons	\$ 3.50	(per 1,000 gallons)
10,001-15,000 Gallons	\$ 3.85	(per 1,000 gallons)
15,001-20,000 Gallons	\$ 4.40	(per 1,000 gallons)
20,001-25,000 Gallons	\$ 5.65	(per 1,000 gallons)
25,001-30,000 Gallons	\$ 7.00	(per 1,000 gallons)
30,001-40,000 Gallons	\$ 12.00	(per 1,000 gallons)
40,001 and over Gallons	\$ 15.00	(per 1,000 gallons)

Monthly Charge(s) – Wastewater: \$ 35.00 Base Fee, plus \$3.25 per 1,000 Gallons

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**TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT – GENERAL FUND**

The following statement sets forth in condensed form the consolidated historical operations of the District’ General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District’s financial statements and records. Reference is made to such statements for further and more complete information. Also see “APPENDIX A – Excerpts from the Annual Financial Report.”

	Fiscal Year End September 30,		
	2015	2014	2013
<u>Revenues:</u>			
Service Accounts/Penalties	\$ 224,142	\$ 133,534	\$ 68,572
Property Taxes/Penalties	180,683	-	-
Connection/Inspection Fees	81,800	87,950	73,550
Other/Developer Advances	70,738	141,438	159,713
Total Revenues	<u>\$ 557,363</u>	<u>\$ 362,922</u>	<u>\$ 301,835</u>
<u>Expenditures:</u>			
Water Reservation Fees	\$ 116,511	\$ 90,238	\$ 101,305
District Operations	179,206	115,124	23,008
Professional Fees	101,937	149,379	117,063
Other	23,146	19,767	12,482
Total Expenditures	<u>\$ 420,800</u>	<u>\$ 374,508</u>	<u>\$ 253,858</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 136,563	\$ (11,586)	\$ 47,977
Beginning Fund Balance	\$ 29,059	\$ 40,645	\$ (7,332)
Adjustments	-	-	-
Ending Fund Balance	<u>\$ 165,622</u>	<u>\$ 29,059</u>	<u>\$ 40,645</u>

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**TABLE 3 – PROJECTED DEBT SERVICE SCHEDULE**

Fiscal Year Ended 9/30	Outstanding Debt			The Bonds			Total Debt Service
	Principal	Interest	Total	Principal	Interest <sup>(a)</sup>	Total	
2017	\$ -	\$ 125,660	\$ 125,660	\$ -	\$ 138,647	\$ 138,647	\$ 264,307
2018	80,000	125,660	205,660	90,000	175,750	265,750	471,410
2019	85,000	124,260	209,260	95,000	171,475	266,475	475,735
2020	90,000	122,560	212,560	95,000	166,963	261,963	474,523
2021	95,000	120,535	215,535	100,000	162,450	262,450	477,985
2022	100,000	118,160	218,160	105,000	157,700	262,700	480,860
2023	105,000	115,410	220,410	110,000	152,713	262,713	483,123
2024	110,000	112,260	222,260	115,000	147,488	262,488	484,748
2025	115,000	108,850	223,850	125,000	142,025	267,025	490,875
2026	120,000	105,256	225,256	130,000	136,088	266,088	491,344
2027	130,000	101,356	231,356	135,000	129,913	264,913	496,269
2028	135,000	96,806	231,806	140,000	123,500	263,500	495,306
2029	145,000	92,081	237,081	145,000	116,850	261,850	498,931
2030	150,000	86,825	236,825	155,000	109,963	264,963	501,788
2031	160,000	81,200	241,200	160,000	102,600	262,600	503,800
2032	165,000	75,200	240,200	170,000	95,000	265,000	505,200
2033	175,000	68,600	243,600	175,000	86,925	261,925	505,525
2034	185,000	61,600	246,600	185,000	78,613	263,613	510,213
2035	195,000	54,200	249,200	190,000	69,825	259,825	509,025
2036	210,000	46,400	256,400	195,000	60,800	255,800	512,200
2037	220,000	38,000	258,000	200,000	51,538	251,538	509,538
2038	230,000	29,200	259,200	205,000	42,038	247,038	506,238
2039	245,000	20,000	265,000	210,000	32,300	242,300	507,300
2040	255,000	10,200	265,200	215,000	22,325	237,325	502,525
2041	-	-	-	255,000	12,113	267,113	267,113
	<u>\$ 3,500,000</u>	<u>\$ 2,040,280</u>	<u>\$ 5,540,280</u>	<u>\$ 3,700,000</u>	<u>\$ 2,685,597</u>	<u>\$ 6,385,597</u>	<u>\$ 11,925,877</u>

(a) Interest calculated at a net interest rate of 4.75% for purposes of illustration only. Preliminary, subject to change.

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**FINANCIAL STATEMENT  
(Unaudited)**

**TABLE 4 – ASSESSED VALUE**

2014 Certified Assessed Valuation .....	\$ 20,303,767 <sup>(a)</sup>
2015 Certified Taxable Assessed Valuation .....	\$ 39,867,562 <sup>(a)</sup>
2016 Certified Taxable Assessed Valuation .....	\$ 68,523,778 <sup>(a)</sup>
Estimated Taxable Assessed Valuation as of September 28, 2016 .....	\$ 76,000,000 <sup>(b)</sup>
 Gross Direct Debt Outstanding .....	 \$ 7,200,000 <sup>(c)</sup>
 Ratio of Gross Direct Debt Outstanding to 2016 Certified Assessed Valuation .....	 10.51%
Ratio of Gross Direct Debt Outstanding to Estimated Taxable Assessed Valuation as of 9-28-16.....	9.47%

Estimated Population as of September 1, 2016: 490<sup>(d)</sup>

- (a) Assessed valuation of the District as reported by the Hays Central Appraisal District (“HCAD”). See “TAXING PROCEDURES.”
- (b) Estimated Taxable Assessed Valuation as of September 26, 2016, as provided by HCAD is included solely for the purposes of illustration.
- (c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”
- (d) Based upon 3.5 residents per completed and occupied single family home.

**TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	11/6/2012	\$ 30,000,000	\$ 3,500,000	\$ 3,700,000	\$ 22,800,000
Refunding	11/6/2012	45,000,000	-	-	45,000,000
Total		<u>\$ 75,000,000</u>	<u>\$ 3,500,000</u>	<u>\$ 3,700,000</u>	<u>\$ 67,800,000</u>

**TABLE 6 – CASH AND INVESTMENT BALANCES<sup>(a)(b)</sup>**

Operating Fund .....	\$ 292,804
Debt Service Fund.....	\$ 465,372
Capital Projects Fund.....	\$ 389,980

- (a) Unaudited as of September 7, 2016.
- (b) Includes capitalized interest (\$216,939) which is projected to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . .** Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating

agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.



**TABLE 7 – CURRENT INVESTMENTS**

As of September 7, 2016, the District is currently invested in a bank Money Market Fund and TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District’s audited financial statements.

Investments	Market Value	% of Total
TexPool	\$ 638,413	68.6%
Money Market	292,804	31.4%
	<u>\$ 931,217</u>	<u>100.00%</u>

**ESTIMATED OVERLAPPING DEBT STATEMENT . . .** Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in “Texas Municipal Reports,” published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivision overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	Overlapping Tax Supported Debt as of 8/31/16
Hays County	\$ 302,365,000	0.15%	\$ 453,548
Dripping Springs ISD	191,069,999	1.30%	2,483,910
Caldwell Hays ESD #1	-	1.00%	-
Hays County ESD #6	-	1.00%	-
Reunion Ranch WCID	7,200,000	100.00%	7,200,000 <sup>(a)</sup>
Total Direct and Overlapping Tax Supported Debt			\$ 10,137,457
Ratio of Direct and Overlapping Tax Supported Debt to 2016 Certified TAV			14.79%

(a) Includes the Bonds.

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**TAX DATA**

**TABLE 8 – TAX COLLECTIONS**

The following statement of tax collections sets forth in condensed form the historical fiscal year tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District’s Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Fiscal Year Ended 9/30	Tax Rate	General Operating Fund	Debt I&S Fund	Tax Levy	% Total Collections
2015	\$ 0.8750	\$ 0.8750	\$ -	\$ 177,658	100.00%
2016 <sup>(a)</sup>	0.8750	0.7750	0.1000	348,841	99.77%
2017	0.8750	0.5250	0.3500	599,583	N/A

(a) Collections through August 31, 2016.

**TABLE 9 – DISTRICT TAX RATES**

	<b>Tax Rates per \$100 Assessed Valuation</b>		
	<b>FY2017</b>	<b>FY2016</b>	<b>FY2015</b>
Debt Service	\$ 0.3500	\$ 0.1000	\$ -
Maintenance	0.5250	0.7750	0.8750
Total	\$ 0.8750	\$ 0.8750	\$ 0.8750

**TAX RATE LIMITATION . . .** The District’s tax rate for debt service on the Bonds is legally unlimited as to rate and amount.

**MAINTENANCE TAX . . .** The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District’s facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District’s voters. An election for such a tax was held on November 7, 2006 at which time a maintenance tax not to exceed \$1.00 per \$100 assessed valuation was approved by the District’s voters. The District adopted a 2016 tax year maintenance tax of \$0.5250 in September 2016.

**TABLE 10 – PRINCIPAL TAXPAYERS . . .** The following list of principal taxpayers was provided by the Hays Central Appraisal District based on the 2016 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Taxable Assessed Value	% of 2016 Taxable Assessed Valuation
Taylor Morrison of Texas Inc. <sup>(a)</sup>	\$ 8,437,180	12.31%
Hays Reunion Ranch LP	2,373,930	3.46%
Imler, Aaron R. & Marysol	637,660	0.93%
Lew, Rex Gee Quan & Akemie	614,260	0.90%
Stevens, Riley	593,868	0.87%
Willis, Robert J.	589,550	0.86%
Ng, Harjono	577,420	0.84%
Reese, David J. & Aimee P.	577,130	0.84%
Larock, Brett & Holly	575,050	0.84%
Bystron, Clark & Maureen	565,440	0.83%
	<u>\$ 15,541,488</u>	<u>22.68%</u>

(a) The Developer.

## TAXING PROCEDURES

**AUTHORITY TO LEVY TAXES . . .** The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – District Bond Tax Rate Limitation,” and “TAX DATA – 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 herein.

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 the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. HCAD has the responsibility for appraising property for all taxing units within Hays County, including the District. Such appraisal values are subject to review and change by the Hays Central Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

**PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . General:** Except for certain exemptions provided by State 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; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: 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; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by Pqualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence 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. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District’s voters may approve. The District’s tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

*Residential Homestead . . .* The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The District has never adopted a general homestead exemption.

*Tax Abatement . . .* Hays County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

*Goods-in-Transit . . .* Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. In February,

2008, the Board conducted a public hearing on the question of whether to provide for taxation of goods-in-transit and adopted a Resolution Providing for Taxation of Goods-in-Transit, by which the District took official action to tax goods-in-transit.

**VALUATION OF PROPERTY FOR TAXATION . . .** Generally, property in the District must be appraised by the HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally 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.

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 that such property would bring if sold as a unit to a purchaser who would continue the business. 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 years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the HCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the HCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the HCAD 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 HCAD 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 HCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals 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 the collection functions to another governmental entity. By August 15 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due December 31, or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

**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 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 rate 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 on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all 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 STATEMENT – Estimated Overlapping Debt Statement." 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. 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 (a taxpayer may redeem residential homestead property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records other property may be redeemed by a taxpayer within 180 days of such filing) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS – Tax Collections and Foreclosure Remedies."

**EFFECT OF FIRREA ON TAX COLLECTIONS . . .** The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains 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 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 lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the 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 FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## LEGAL MATTERS

**LEGAL OPINIONS . . .** Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

**NO-LITIGATION CERTIFICATE . . .** The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

**NO MATERIAL ADVERSE CHANGE . . .** The obligations of the Initial Purchaser 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 Official Statement.

## TAX MATTERS

**OPINION . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”) (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX B – Form of Bond Counsel Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel’s opinion represents its legal judgement based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

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

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

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer’s alternative minimum taxable income, if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

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

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

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a

taxpayer that is a “financial institution” allocable to tax-exempt obligation, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District expects to designate the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

### CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. 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 (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to certain information to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 9 and in “APPENDIX A – Excerpts from the Annual Financial Report,” if audited such financial statements in APPENDIX A are then available. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if completed by the required time. If audited financial statements are not available within twelve months after any such fiscal year end, the District will file unaudited financial statements within twelve months after any such fiscal year end, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in “APPENDIX A – Excerpts from the Annual Financial Report” or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

**NOTICE OF CERTAIN EVENTS . . .** The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws; (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing



body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

**AVAILABILITY OF INFORMATION FROM THE MSRB . . .** The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm is currently employed as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

#### **OFFICIAL STATEMENT**

**PREPARATION . . .** The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “The District.” The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from sources including: Murfee Engineering Company; Taylor Morrison of Texas Inc.; Bott Douthitt, PLLC; and Willatt & Flickinger, PLLC.

**UPDATING THE OFFICIAL STATEMENT DURING UNDERWRITING PERIOD . . .** If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale under the heading “DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS – Delivery.” The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

**CERTIFICATION AS TO OFFICIAL STATEMENT . . .** The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Initial Purchaser.

**ANNUAL AUDITS . . .** Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year so long as the District has bond outstanding. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Reunion Ranch Water Control and Improvement District, as of the date shown on the first page hereof.

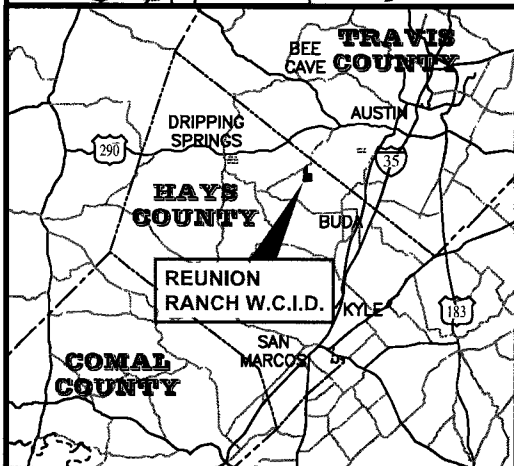
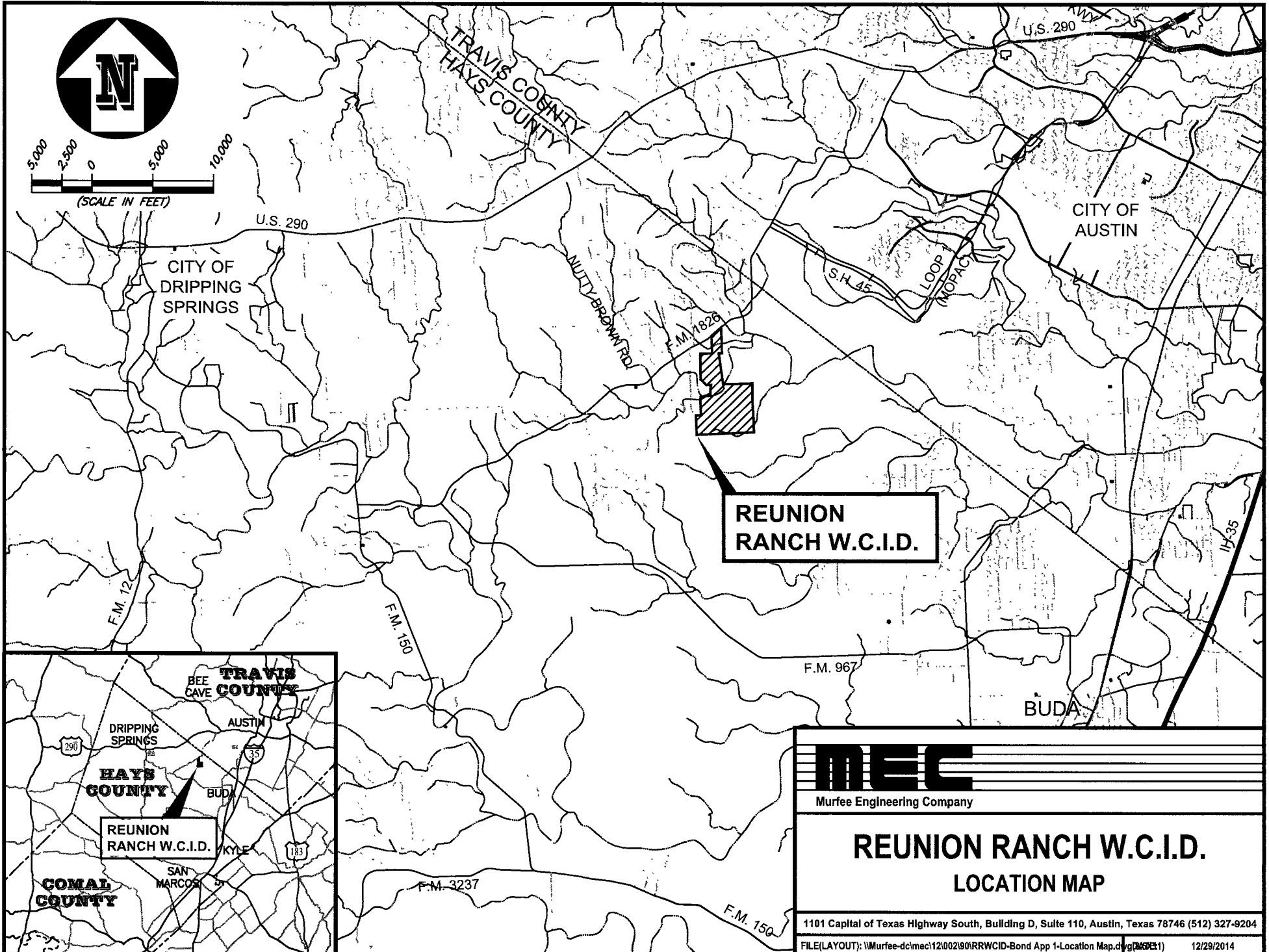
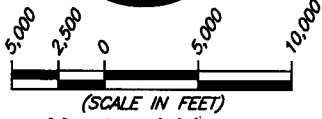
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Secretary, Board of Directors  
Reunion Ranch WCID

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President, Board of Directors  
Reunion Ranch WCID

## LOCATION MAP



**MEC**  
Murfee Engineering Company

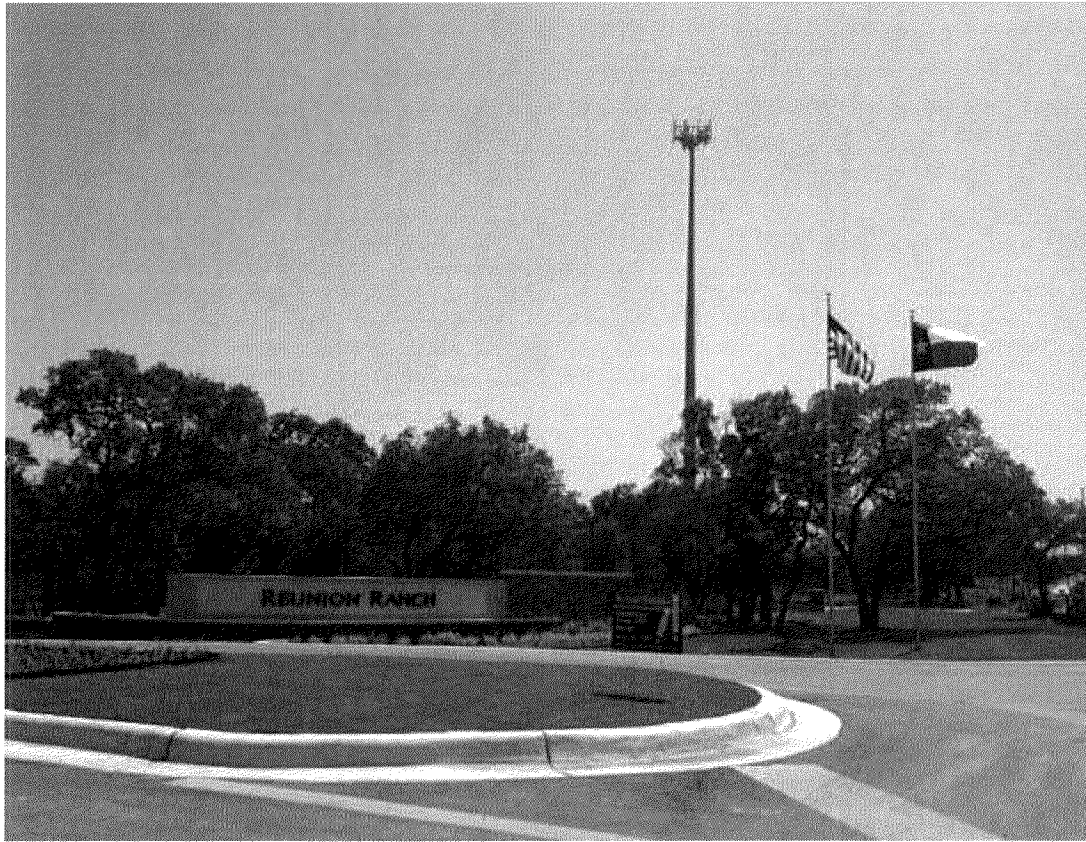
**REUNION RANCH W.C.I.D.**  
**LOCATION MAP**

1101 Capital of Texas Highway South, Building D, Suite 110, Austin, Texas 78746 (512) 327-9204

## **PHOTOGRAPHS**

The homes shown in the attached photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction.

The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."



**APPENDIX A**

**EXCERPTS FROM THE ANNUAL FINANCIAL REPORT**

The information contained in this APPENDIX has been excerpted from the financial statements of Reunion Ranch Water Control and Improvement District for the fiscal year ended September 30, 2015, as prepared by the District's auditor Maxwell Locke & Ritter.



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 703 East Main Street

Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Reunion Ranch Water Control and Improvement District:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of Reunion Ranch Water Control and Improvement District (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's 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.

### **Auditors' Responsibility**

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*



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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the District as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-6 and FS-13, respectively, 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 to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Texas supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maxwell Sochet + Fitter LLP*

Austin, Texas  
January 19, 2016

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Reunion Ranch Water Control and Improvement District (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the nonspendable and unassigned fund balance totaled \$165,622 for the General Fund, an increase of \$136,563 from the previous fiscal year. General Fund revenue increased from \$221,574 in the previous fiscal year to \$486,689 in the current fiscal year. Developer advances decreased from \$141,348 in the previous fiscal year to \$70,674 in the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$66,704 in the current fiscal year. Net position increased from a deficit balance of \$457,673 at September 30, 2014 to a deficit balance of \$390,969 at September 30, 2015.

**OVERVIEW OF THE DISTRICT**

The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated August 15, 2005 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution.

**USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Notes to the Basic Financial Statements*
4. *Required Supplementary Information*
5. *Texas Supplemental Information* (required by the Texas Commission on Environmental Quality (the TSI section))

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**USING THIS ANNUAL REPORT (continued) -**

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "General Fund" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Fund Balance Sheet* includes a column (titled "General Fund") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance* includes a column (titled "General Fund") that derives the change in fund balance resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Fund Balance Sheet* and the *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

**Summary Statement of Net Position**

	Governmental Activities		Change Increase (Decrease)
	2015	2014	
Current and other assets	\$ 287,690	\$ 117,097	\$ 170,593
Capital and non-current assets	-	-	-
<b>Total Assets</b>	<b>\$ 287,690</b>	<b>\$ 117,097</b>	<b>\$ 170,593</b>
Current liabilities	\$ 121,253	\$ 88,038	\$ 33,215
Long-term liabilities	557,406	486,732	70,674
<b>Total Liabilities</b>	<b>678,659</b>	<b>574,770</b>	<b>103,889</b>
Unrestricted	(390,969)	(457,673)	66,704
<b>Total Net Position</b>	<b>\$ (390,969)</b>	<b>\$ (457,673)</b>	<b>\$ 66,704</b>

The District's net position increased by \$66,704 during the 2015 fiscal year to a deficit balance of \$390,969 at September 30, 2015, up from the previous year's deficit balance of \$457,673.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) -**

**Revenues and Expenses:**

**Summary Statement of Activities**

	Governmental Activities		Change Increase (Decrease)
	2015	2014	
Property taxes, including penalties	\$ 181,498	\$ -	\$ 181,498
Service accounts, including penalties	224,142	133,534	90,608
Connection/inspection fees	81,800	87,950	(6,150)
Other	64	90	(26)
<b>Total Revenues</b>	<b>487,504</b>	<b>221,574</b>	<b>265,930</b>
Water reservation fees/monthly charges/ purchases	116,511	90,238	26,273
District operations	179,206	115,124	64,082
Professional fees	101,937	149,379	(47,442)
Other	23,146	19,767	3,379
<b>Total Expenses</b>	<b>420,800</b>	<b>374,508</b>	<b>46,292</b>
<b>Change in Net Position</b>	<b>\$ 66,704</b>	<b>\$ (152,934)</b>	<b>\$ 219,638</b>

Revenues were \$487,504 for the fiscal year ended September 30, 2015 while expenses were \$420,800. Net position increased \$66,704 during the 2015 fiscal year.

On September 10, 2014, the District levied its first property tax on residents of the District. Property tax revenues in the current fiscal year totaled \$181,498. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2014 tax year (September 30, 2015 fiscal year) were based upon a current assessed value of \$20,303,767 and a tax rate of \$0.875 per \$100 of assessed valuation.

The tax rate levied is determined after the District's Board of Directors reviews the General Fund budget requirements and the Debt Service Fund debt service obligations of the District, if any. At September 30, 2015, property taxes composed over 37% of the District's total revenue sources.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**ANALYSIS OF GOVERNMENTAL FUND**

Governmental Fund by Year

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 154,126	\$ 75,594
Service accounts receivable	48,396	34,533
Taxes receivable	815	-
Other	8,024	3,770
Prepaid expenditures	<u>76,329</u>	<u>3,200</u>
Total Assets	<u>\$ 287,690</u>	<u>\$ 117,097</u>
Accounts payable	\$ 58,140	\$ 49,448
Other	<u>63,113</u>	<u>38,590</u>
Total Liabilities	<u>121,253</u>	<u>88,038</u>
Deferred Inflows of Resources	<u>815</u>	<u>-</u>
Nonspendable	76,329	3,200
Unassigned	<u>89,293</u>	<u>25,859</u>
Total Fund Balance	<u>165,622</u>	<u>29,059</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 287,690</u>	<u>\$ 117,097</u>

As of September 30, 2015, the District's governmental fund reflects a fund balance of \$165,622. This fund balance includes a \$136,563 increase in the General Fund balance in fiscal year 2015. Revenues and other financing sources were \$486,689 and \$70,674, respectively, for the fiscal year ended September 30, 2015, while expenditures were \$420,800. At September 30, 2014, the District's governmental fund reflected a fund balance of \$29,059. In fiscal year 2014, revenues and other financing sources were \$221,574 and \$141,348, respectively, while expenditures were \$374,508.

**LONG-TERM DEBT ACTIVITY**

At September 30, 2015, unlimited tax bonds of \$30,000,000 were authorized by the voters of the District, but unissued. The District's population as provided by the District is 361 as of September 30, 2015.

At September 30, 2015, the District owed \$557,406 to the developer for advances used to fund general operating activities of the District.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating expenditures. The Board of Directors adopted a budget on August 19, 2014 for the 2015 fiscal year. The budget included revenues of \$390,722 as compared to expenditures of \$368,098 for the 2015 fiscal year. When comparing actual figures to budgeted amounts, the District had an overall positive variance of \$113,939 primarily due to increased service accounts collections and \$70,674 in unbudgeted advances received from the developer. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The property tax assessed value for 2015 (September 30, 2016 fiscal year) is approximately \$37.2 million. The fiscal year 2015 tax rate is \$0.875 on each \$100 of taxable value. Approximately 89% of the property tax collections will fund general operating expenditures and the remaining 11% will be set aside for debt service.

The adopted budget for fiscal year 2016 projects an operating fund balance increase of \$128,913. Compared to the fiscal year 2015 budget, revenues are expected to increase by approximately \$168,000 and expenditures are expected to increase by approximately \$62,000.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Willatt & Flickinger, 2001 North Lamar Blvd, Austin, Texas 78705.



**BASIC  
FINANCIAL STATEMENTS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Adjustments Note 2</u>	<u>Government - Wide Statement of Net Position</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents:			
Cash	\$ 133,424	\$ -	\$ 133,424
Cash equivalents	20,702	-	20,702
Receivables:			
Service accounts, net of allowance for doubtful accounts of \$ - 0 -	48,396	-	48,396
Taxes	815	-	815
Other	8,024	-	8,024
Prepaid expenditures	76,329	-	76,329
<b>TOTAL ASSETS</b>	<b>\$ 287,690</b>	<b>-</b>	<b>287,690</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 58,140	-	58,140
Accrued payables	43,653	-	43,653
Refundable deposits	19,460	-	19,460
Long-term liabilities-			
Due to developer	-	557,406	557,406
<b>TOTAL LIABILITIES</b>	<b>121,253</b>	<b>557,406</b>	<b>678,659</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Property taxes	815	(815)	-
Total deferred inflows of resources	815	(815)	-
<b><u>FUND BALANCE</u></b>			
Fund balance:			
Nonspendable	76,329	(76,329)	-
Unassigned	89,293	(89,293)	-
<b>TOTAL FUND BALANCE</b>	<b>165,622</b>	<b>(165,622)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 287,690</b>		
<b><u>NET POSITION</u></b>			
Unrestricted		(390,969)	(390,969)
<b>TOTAL NET POSITION</b>		<b>\$ (390,969)</b>	<b>\$ (390,969)</b>

*The accompanying notes are an integral part of this statement.*

FS-1

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2015**

	General Fund	Adjustments Note 2	Government - Wide Statement of Activities
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 180,683	\$ 815	\$ 181,498
Service accounts, including penalties	224,142	-	224,142
Connection/inspection fees	81,800	-	81,800
Other	64	-	64
<b>TOTAL REVENUES</b>	<b>486,689</b>	<b>815</b>	<b>487,504</b>
<b>EXPENDITURES / EXPENSES:</b>			
Water monthly charges/purchases	94,372	-	94,372
Operations	50,305	-	50,305
Repairs and maintenance	49,386	-	49,386
Engineering fees	39,319	-	39,319
Legal fees	37,468	-	37,468
Connections/inspections	32,453	-	32,453
Water reservation fees	22,139	-	22,139
Chemicals/lab fees	19,583	-	19,583
Bookkeeping fees	18,150	-	18,150
Landscape maintenance	12,595	-	12,595
Utilities	10,296	-	10,296
Insurance	9,538	-	9,538
Director fees, including payroll taxes	8,235	-	8,235
Audit fees	7,000	-	7,000
Sludge hauling	4,588	-	4,588
Tax collector/assessor fees	3,294	-	3,294
Permit fees	1,415	-	1,415
Other	664	-	664
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>420,800</b>	<b>-</b>	<b>420,800</b>
Excess of revenues over expenditures	65,889	815	66,704
<b>OTHER FINANCING SOURCES -</b>			
Advances from developer	70,674	(70,674)	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>70,674</b>	<b>(70,674)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>136,563</b>	<b>(136,563)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>		<b>66,704</b>	<b>66,704</b>
<b>FUND BALANCE / NET POSITION:</b>			
Beginning of the year	29,059	(486,732)	(457,673)
End of the year	\$ 165,622	\$ (556,591)	\$ (390,969)

*The accompanying notes are an integral part of this statement.*

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**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Reunion Ranch Water Control and Improvement District (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below, and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated August 15, 2005 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the "Board") which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District's reporting entity.

**Basis of Presentation - Government-Wide and Fund Financial Statements** - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information the Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-Wide Financial Statements:** The District's Statement of Net Position includes non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District's capital assets, if any, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures of either fund category) for the determination of major funds.

*Governmental Fund Types* - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund type:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues, if any, and other sources of revenue used to finance the fundamental operations of the District are included in this fund.

*Non-current Governmental Assets and Liabilities* - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

*Basis of Accounting*

- **Governmental Funds**

*Government-Wide Statements* - The government-wide financial statement column is reported using 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 revenues in the year for which they are levied.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

• **Governmental Funds (continued) -**

*Fund Financial Statements* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in the fund balance. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available).

“Measurable” means that the amount of the transaction can be determined and “available” means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt, if issued and outstanding, which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues, if any, are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. The District made no such accrual for the year ended September 30, 2015. All other revenues of the District are recorded on the accrual basis in all funds.

The District may report deferred inflows of resources on its combined balance sheet. Deferred inflows arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the balance for deferred inflows is removed from the combined balance sheet and revenue is recognized.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

***Budgets and Budgetary Accounting*** - A budget was adopted on August 19, 2014, for the General Fund on a basis consistent with GAAP. The District's Board utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end. The budget was not amended during the current fiscal year. For the year ended September 30, 2015, expenditures exceeded budget in the General Fund by \$52,702.

***Accounting Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents*** - Cash and cash equivalents includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer's Investment Pool, are recorded at cost, which approximates fair market value.

***Accounts Receivable*** - The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District believes all accounts were collectible at September 30, 2015.

***Prepaid Expenditures*** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in both the government-wide and fund financial statements. Prepaid expenditures shall be charged to expenditures when consumed.

***Deferred Outflows and Deferred Inflows of Resources*** - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.



**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

*Ad Valorem Property Taxes* - Property taxes, penalties, and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District. Allowances for uncollectible property taxes are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

*Fund Equity* - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 7 for additional information on those fund balance classifications.

**2. RECONCILIATION OF THE GOVERNMENTAL FUND**

Adjustments to convert the Governmental Fund Balance Sheet to the Statement of Net Position are as follows:

Fund balance - General Fund		\$ 165,622
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred inflows of resources for revenues earned but not available.		815
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund -		
Developer advances		(557,406)
Net position of governmental activities		\$ (390,969)

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUND (continued) -**

Adjustments to convert the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities are as follows:

Change in fund balance - General Fund	\$ 136,563
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental fund reports:	
Tax revenue in the year collected	815
Developer advances in year received	(70,674)
	\$ 66,704
Change in net position of governmental activities	\$ 66,704

**3. CASH AND CASH EQUIVALENTS**

The investment policies of the District are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act") and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy, which complies with the Public Funds Investment Act, include: depositories must be Federal Deposit Insurance Corporation ("FDIC") insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

**Cash** - At September 30, 2015, the carrying amount of the District's deposits was \$133,424 and the bank balance was \$143,351. The bank balance was covered by FDIC insurance.

**Cash Equivalents -**

**Interest Rate Risk** - In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**3. CASH AND CASH EQUIVALENTS (continued) -**

**Credit Risk** - The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities; or
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share; or
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; or
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; or
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

At September 30, 2015, the District held the following cash equivalents:

	Fair Market Value at 9/30/2015	Weighted Average Maturity	Investment Rating	
Investment			Rating	Rating Agency
TexPool	\$ 20,702	1	AAAm	Standard & Poors
	\$ 20,702			

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool ("TexPool"). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at fair value which is the same as the value of the pool shares. TexPool also has an advisory board to advise on TexPool's investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) -**

**Concentration of Credit Risk** - In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2015, the District did not own any investments in individual securities.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2015, the District's bank deposits were fully covered by FDIC insurance.

**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson County Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board set current tax rates on September 10, 2014.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2014 tax roll. The tax rate, based on total taxable assessed valuation of \$20,303,767 was \$0.875 on each \$100 valuation and was allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 7, 2006.

Property taxes receivable at September 30, 2015, consisted of the following:

	General Fund
Current year levy	\$ -
Prior years' levies	-
Rollbacks	815
	\$ 815

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**5. COMMITMENTS AND CONTINGENCIES**

The developer of the land within the District has incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Commission, or from operations. As of September 30, 2015, the District has not issued any bonds and has received \$557,406 of developer advances.

**6. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

**7. FUND BALANCES**

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Those fund balance classifications are described below.

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation. The District had no such amounts.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**7. FUND BALANCES (continued) -**

- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The details of the fund balances are included in the Governmental Fund Balance Sheet on page FS-1.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

**8. SUBSEQUENT EVENTS**

In December 2015, the District issued \$3,500,000 of Unlimited Tax Bonds, Series 2015. Proceeds from the bonds will be used to finance construction and other District development costs. The Series 2015 bonds were sold with interest rates ranging from 1.75% to 4.00% and principal maturities through August 2040.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2015**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance With Original Budget</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 180,683	\$ 174,105	\$ 6,578
Service accounts, including penalties	224,142	139,607	84,535
Connection/inspection fees	81,800	76,950	4,850
Other	64	60	4
<b>TOTAL REVENUES</b>	<u>486,689</u>	<u>390,722</u>	<u>95,967</u>
<b>EXPENDITURES:</b>			
Water monthly charges/purchases	94,372	56,934	(37,438)
Operations	50,305	46,560	(3,745)
Repairs and maintenance	49,386	39,000	(10,386)
Engineering fees	39,319	42,000	2,681
Legal fees	37,468	72,000	34,532
Connections/inspections	32,453	8,550	(23,903)
Water reservation fees	22,139	19,776	(2,363)
Chemicals/lab fees	19,583	12,000	(7,583)
Bookkeeping fees	18,150	18,150	-
Landscape maintenance	12,595	6,000	(6,595)
Utilities	10,296	10,800	504
Insurance	9,538	9,250	(288)
Director fees, including payroll taxes	8,235	9,778	1,543
Audit fees	7,000	10,000	3,000
Sludge hauling	4,588	4,000	(588)
Tax collector/assessor fees	3,294	600	(2,694)
Permit fees	1,415	1,500	85
Other	664	1,200	536
<b>TOTAL EXPENDITURES</b>	<u>420,800</u>	<u>368,098</u>	<u>(52,702)</u>
Excess of revenues over expenditures	<u>65,889</u>	<u>22,624</u>	<u>43,265</u>
<b>OTHER FINANCING SOURCES -</b>			
Advances from developer	<u>70,674</u>	<u>-</u>	<u>70,674</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>70,674</u>	<u>-</u>	<u>70,674</u>
<b>NET CHANGE IN FUND BALANCE</b>	136,563	<u>\$ 22,624</u>	<u>\$ 113,939</u>
Beginning of the year	<u>29,059</u>		
End of the year	<u>\$ 165,622</u>		





**APPENDIX B**

**FORM OF BOND COUNSEL'S OPINION**

LAW OFFICES

**M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE 214 754-9200  
FACSIMILE 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE 512 478-3805  
FACSIMILE 512 472-0871

700 N ST MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 210 225-2800  
FACSIMILE 210 225-2984

*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.]*

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BONDS, SERIES 2016  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,700,000**

**AS BOND COUNSEL FOR THE REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on \_\_\_\_\_, 2016 authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from

contracts with other persons, including private corporations, municipalities, and political subdivisions.

**IT IS FURTHER OUR OPINION** that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

**OFFICIAL STATEMENT**

**Dated November 15, 2016**

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN INCLUDING THE ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS."

**NEW ISSUE – Book-Entry Only**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**  
*(A Political Subdivision of the State of Texas Located in Hays County, Texas)*  
**UNLIMITED TAX BONDS, SERIES 2016**

**Dated: November 15, 2016**

**Due: August 15, as shown on the inside cover page**

**Interest to accrue from the date of Initial Delivery (as defined below)**

The bonds described above (the "Bonds") are obligations solely of Reunion Ranch Water Control and Improvement District (the "District") and are not obligations of the State of Texas ("State"), Hays County (the "County"), the City of Dripping Springs (the "City"), Dripping Springs Independent School District or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

**PAYMENT TERMS** . . . Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Austin, Texas, (the "Paying Agent" or the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the date of Initial Delivery and will be payable each February 15 and August 15, commencing August 15, 2017, until maturity or prior redemption. Interest on the Bonds will be payable on the basis of a 360-day year consisting 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 provided on page 2.

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 "THE BONDS – Book-Entry-Only System."

**PURPOSE** . . . Proceeds of the Bonds will be used to finance the District's share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C. The remaining Bond proceeds will be used to: (i) capitalize interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds.

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**CUSIP PREFIX: 76131M**  
**MATURITY SCHEDULE**  
**SEE INSIDE COVER PAGE**

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**LEGALITY** . . . The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel.

**DELIVERY** . . . Delivery of the Bonds is expected through the facilities of DTC on December 22, 2016 ("Initial Delivery").

**MATURITY SCHEDULE**

8/15 Maturity	Principal Amount	Interest Rate <sup>(a)</sup>	Initial Yield <sup>(b)</sup>	CUSIP Numbers <sup>(c)</sup>
2018	\$ 90,000	3.000%	1.500%	76131MAZ6
2019	95,000	3.000%	1.750%	76131MBA0
2020	95,000	3.000%	2.000%	76131MBB8
2021	100,000	3.000%	2.250%	76131MBC6
2022	105,000	3.000%	2.500%	76131MBD4
2023	110,000	3.000%	2.750%	76131MBE2
2024	115,000	3.000%	3.000%	76131MBF9
2025	125,000	3.125%	3.200%	76131MBG7
2026	130,000	3.375%	3.400%	76131MBH5
2027	135,000	3.500%	3.500%	76131MBJ1
2028	140,000	3.500%	3.600%	76131MBK8
2029	145,000	3.625%	3.700%	76131MBL6
2030	155,000	3.750%	3.800%	76131MBM4
2031	160,000	3.750%	3.900%	76131MBN2
2032	170,000	4.000%	4.000%	76131MBP7
2033	175,000	4.000%	4.050%	76131MBQ5
2034	185,000	4.000%	4.100%	76131MBR3

**\$585,000 4.125%<sup>(a)</sup> Term Bonds due August 15, 2037 at a Price of 98.966% to Yield 4.200%<sup>(b)</sup> – 76131MBU6<sup>(c)</sup>**  
**\$885,000 4.250%<sup>(a)</sup> Term Bonds due August 15, 2041 at a Price of 100.000% to Yield 4.250%<sup>(b)</sup> – 76131MBY8<sup>(c)</sup>**

**(Interest to accrue from the date of Initial Delivery)**

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.000% of par, resulting in a net effective interest rate to the District of 4.1642087%.
- (b) Initial yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which subsequently may be changed.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**REDEMPTION PROVISIONS . . .** The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2024 in whole or from time to time in part, on August 15, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.” Additionally, Term Bonds maturing on August 15 in the years 2037 and 2041 are subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”

*[The remainder of this page intentionally left blank]*

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "FINAL OFFICIAL STATEMENT" of the District with respect to the Bonds, as that term is defined in the Rule.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the District 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. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND, CONSEQUENTLY, HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED, SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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The cover and inside cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of 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 RBC Capital Markets (the "Initial Purchaser") bearing the interest rates shown on the inside cover page hereof, at a price of 97.000% of the par value thereof which resulted in a net effective interest rate of 4.1642087% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the "IBA" method).

**PRICES AND MARKETABILITY . . .** The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser 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 Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

## NO MUNICIPAL BOND RATINGS OR INSURANCE

The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

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**OFFICIAL STATEMENT SUMMARY**

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

**THE DISTRICT**

**THE ISSUER**..... Reunion Ranch Water Control and Improvement District (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective August 15, 2005 and confirmed pursuant to an election held within the District on November 7, 2006. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”

**LOCATION**..... The District is located in Hays County approximately 14 miles west of IH-35 and lies wholly inside of the extraterritorial jurisdiction of the City of Dripping Springs, Texas and within the Boundaries of the Dripping Springs Independent School District. The District is located approximately six miles south of State Highway 290, off Ranch-to-Market Road 1826.

The District is currently comprised of approximately 524 acres being developed as Reunion Ranch, a single-family residential community. See “THE DISTRICT – Location” and “LOCATION MAP.”

**THE DEVELOPER** ..... The developer currently active within the District is Taylor Morrison of Texas, Inc. (“Taylor Morrison” or the “Developer”), a Texas corporation. See “THE DEVELOPER – Description of Developer” and “THE DISTRICT – Current Status of Development.” See “DESCRIPTION OF OTHER LANDOWNERS.”

**DEVELOPMENT WITHIN THE DISTRICT**..... Of the approximately 524 acres within the District, approximately 318.865 acres have been developed with utility facilities as a single family residential subdivision including an approximately 2 acre amenity center. As of September 1, 2016, the following sections have been developed with utility facilities: Sections 1 and 2; Phase 2, Sections 1, 2 and 3. As of September 1, 2016, the development in the District consisted of 150 completed homes (of which 140 are occupied and 10 are unoccupied), 35 homes under construction and 115 vacant developed lots.

To date, the Developer has advanced funds in the approximate amount of \$11,900,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer approximately \$5,960,000 for additional water, wastewater and drainage facilities which have been constructed to date. See “THE DISTRICT – Current Status of Development.”

**HOMEBUILDERS**..... Taylor Morrison of Texas, Inc. is the only current homebuilder in the District. The homes range in price from \$400,000 to \$565,000, with square footage ranging from 2,000 to 4,500. See “THE DEVELOPER – Homebuilders within the District.”

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**THE BONDS**

DESCRIPTION .....	The Bonds in the aggregate principal amount of \$3,700,000 mature serially in varying amounts on August 15 of each year from 2018 through 2034 and as Term Bonds maturing on August 15 in the years 2037 and 2041, inclusive, in the principal amounts set forth on the inside cover page hereof. Interest accrues from the date of Initial Delivery and is payable August 15, 2017 and each February 15 and August 15 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General Description.”
REDEMPTION .....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 15, 2024 in whole or from time to time in part, on August 15, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.” Additionally, Term Bonds maturing on August 15 in the years 2037 and 2041 are subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption.”
SOURCE OF PAYMENT .....	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” <b>The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs; Dripping Springs Independent School District; Hays County, Texas; the State of Texas; or any entity other than the District.</b> See “THE BONDS – Source of and Security for Payment.”
PAYMENT RECORD .....	The Bonds constitute the second installment of bonds issued by the District for construction of the water, sanitary sewer and drainage system (the “System”). See “FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued.”
AUTHORITY FOR ISSUANCE .....	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 6, 2012, the approving order of the TCEQ and an order (the “Bond Order”) adopted by the Board of Directors of the District on the date of the sale of the Bonds. See “THE BONDS – Authority for Issuance.”
USE OF PROCEEDS .....	<p>The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase IA and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C.</p> <p>The remaining Bond proceeds will be used to: (i) capitalize interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”</p>
BONDS AUTHORIZED BUT UNISSUED .....	At an election held within the District on November 6, 2012, the voters within the District approved the issuance of \$30,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$22,800,000 remaining in authorized but unissued bonds. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. The District has not issued any park and recreational facilities bonds or refunding bonds. See “FINANCIAL STATEMENT – Outstanding Bonds” and “THE BONDS – Future Debt.”
NO MUNICIPAL BOND RATING OR INSURANCE	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. No application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance.

<b>QUALIFIED TAX-EXEMPT OBLIGATIONS.....</b>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2016 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
<b>BOND COUNSEL &amp; DISCLOSURE COUNSEL.....</b>	McCall, Parkhurst & Horton L.L.P., Austin, Texas
<b>GENERAL COUNSEL.....</b>	Willatt & Flickinger, PLLC, Austin, Texas
<b>FINANCIAL ADVISOR .....</b>	Specialized Public Finance Inc., Austin, Texas
<b>ENGINEER.....</b>	Murfee Engineering Company, Austin, Texas

**RISK FACTORS**

The purchase and ownership of the Bonds involve certain risk factors and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned “RISK FACTORS,” with respect to investment in the Bonds.

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited as of September 28, 2016)

2014 Certified Taxable Assessed Valuation .....	\$ 20,303,767	(a)
2015 Certified Taxable Assessed Valuation .....	\$ 39,867,562	(a)
2016 Certified Taxable Assessed Valuation .....	\$ 68,523,778	(a)
Estimated Taxable Assessed Valuation (as of September 28, 2016).....	\$ 76,000,000	(b)
Gross Direct Debt Outstanding .....	\$ 7,200,000	(c)
Estimated Overlapping Debt.....	<u>2,937,458</u>	(d)
Gross Direct Debt Outstanding and Estimated Overlapping Debt .....	\$ 10,137,458	
Ratios of Gross Direct Debt Outstanding to:		
2016 Certified Taxable Assessed Valuation .....		10.51%
September 28, 2016 Estimated Certified Taxable Assessed Valuation.....		9.47%
Ratios of Gross Direct Debt Outstanding and Estimated Overlapping Debt to:		
2016 Certified Taxable Assessed Valuation .....		14.79%
September 26, 2016 Estimated Taxable Assessed Valuation.....		13.34%
2016 Tax Rate:		
Debt Service.....	\$ 0.3500	
Maintenance & Operation.....	<u>0.5250</u>	
Total.....	\$ 0.8750	(e)
General Operating Fund Balance as of September 7, 2016 (unaudited) .....	\$ 292,804	
Debt Service Fund Balance as of September 7, 2016 (unaudited).....	\$ 479,547	(f)
Capital Projects Fund Balance as of September 7, 2016 (unaudited).....	\$ 389,980	
Average Annual Debt Service Requirement on the Bonds and outstanding debt (2017-2041).....	\$ 458,474	(c)
Maximum Annual Debt Service Requirement on the Bonds and outstanding debt (2036).....	\$ 505,306	(c)
Tax Rates Required to Pay Average Annual Debt Service (2017-2041) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation.....	\$ 0.7043	
Tax Rates Required to Pay Maximum Annual Debt Service (2036) at a 95% Collection Rate		
Based upon 2016 Certified Taxable Assessed Valuation.....	\$ 0.7763	
Number of Active Connections as of September 1, 2016:		
Total Developed Single Family Lots .....	300	
Single Family Homes– Completed & Occupied .....	140	
Single Family Homes – Completed & Unoccupied .....	10	
Single Family Homes – Under Construction .....	35	
Single Family – Vacant Developed Lots .....	115	
Estimated Population as of September 1, 2016 .....	490	(g)

(a) Assessed valuation of the District as certified by the Hays Central Appraisal District (“HCAD”). See “TAXING PROCEDURES.”

(b) Estimated Taxable Assessed Valuation as of September 28, 2016, as provided by HCAD is included solely for purposes of illustration.

(c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”

(d) See “DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt.”

(e) The District levied a 2016 total tax rate of \$0.8750. See “Table 9 – District Tax Rates.”

(f) Includes \$231,114 in capitalized interest on the Bonds. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the District’s Debt Service Fund.

(g) Based upon 3.5 residents per completed and occupied single family home.

**OFFICIAL STATEMENT**

**Relating to**

**\$3,700,000**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT**

*(A Political Subdivision of the State of Texas Located in Hays County, Texas)*

**UNLIMITED TAX BONDS, SERIES 2016**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the Reunion Ranch Water Control and Improvement District (the "District"), a political subdivision of the State of Texas (the "State"), of its \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on November 6, 2012, and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Order.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Willatt & Flickinger, PLLC, 12912 Hill Country Boulevard, Suite F-232 Austin, Texas 78738 or from the District's Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

**THE BONDS**

**GENERAL DESCRIPTION** . . . The Bonds are dated November 15, 2016 and will mature on August 15 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the date of Initial Delivery, will be paid on August 15, 2017 and each February 15 and August 15 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar").

**OPTIONAL REDEMPTION** . . . The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2024, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 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).

**MANDATORY SINKING FUND REDEMPTION** . . . The Bonds maturing August 15 in the years 2037 and 2041 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par plus accrued interest to the date of redemption by lot:

Term Bonds Due August 15, 2037		Term Bonds Due August 15, 2041	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 15, 2035	\$ 190,000	August 15, 2038	\$ 205,000
August 15, 2036	195,000	August 15, 2039	210,000
August 15, 2037*	200,000	August 15, 2040	215,000
		August 15, 2041*	255,000

\*Stated Maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

*Notice of Redemption . . .* At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**DTC REDEMPTION PROVISION . . .** The Paying Agent/Registrar and the District, so long as a book-entry-only system ("Book-Entry-Only-System") is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants.

Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

**TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** The District is initially utilizing the Book-Entry-Only System of DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

*Payment . . .* Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

*Registration . . .* If the Book-Entry-Only System is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly

authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in the denominations of \$5,000 or any integral multiple thereof.

*Limitation on Transfer of Bonds* . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15th) calendar day of the month (whether or not a business day) preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

*Replacement Bonds* . . . If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

**AUTHORITY FOR ISSUANCE** . . . At an election held within the District on November 6, 2012, voters within the District authorized a total of \$30,000,000 in unlimited tax bonds for water, wastewater and drainage facilities. The Bonds constitute the second installment of bonds issued by the District. After the sale of the Bonds, \$22,800,000 principal amount of District bonds will remain authorized but unissued for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. The District has not issued any park and recreational facilities bonds or refunding bonds. The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of the TCEQ dated October 17, 2016.

**SOURCE OF AND SECURITY FOR PAYMENT** . . . The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if Dripping Springs dissolves the District and assumes all debts and liabilities of the District.

Under Texas law, the District may be dissolved by the City of Dripping Springs (the "City") without the consent of the District or its residents. When the District is abolished, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs; Dripping Springs Independent School District; Hays County, Texas; the State of Texas; or any political subdivision or entity other than the District.

**PAYMENT RECORD** . . . The Bonds constitute the second installment of bonds issued by the District. The District has previously issued \$3,500,000 Unlimited Tax Bonds, Series 2015 (the "Outstanding Bonds"). The District has not defaulted on the payment of principal of or interest on the Outstanding Bonds

**FLOW OF FUNDS** . . . The Bond Order creates the establishment and maintenance by the District of a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of water control and improvement districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.



*Debt Service Fund* . . . The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing accrued interest, if any, and approximately twenty-four months' capitalized interest on the Bonds, (ii) District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

*Capital Projects Fund* . . . The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then in the discretion of the District to transfer such unexpended proceeds or income to the Debt Service Fund or as otherwise authorized by the TCEQ.

**DEFEASANCE OF OUTSTANDING BONDS** . . . *General* . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

Any money so deposited with or made available to the Paying Agent or an eligible trust company or commercial bank also may be invested at the written direction of the District in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be remitted to the District or deposited as directed in writing by the District.

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) non-callable 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 Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to provide all debt service payments on the Bonds.

*Retention of Rights* . . . To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the

exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

**Investments . . .** Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the District or deposited as directed in writing by the District.

**PAYING AGENT/REGISTRAR . . .** Principal of and semiannual interest on the Bonds will be paid by BOKF, NA having an office for payment in Austin, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each registered owner by first-class mail, postage prepaid.

**RECORD DATE . . .** The Record Date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the last calendar day of the month (whether or not a business day) preceding such interest payment date.

**ISSUANCE OF ADDITIONAL DEBT . . .** According to the District's engineer, the \$22,800,000 in principal amount of bonds authorized but unissued (after issuance of the Bonds), should be sufficient to reimburse the developer for the water, wastewater and drainage development within the District. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$45,000,000 in refunding bonds. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." The District has not issued any park and recreational facilities bonds or refunding bonds. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "RISK FACTORS." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of 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.

**LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a water control and improvement 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." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a water control and improvement district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations, or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

**SPECIFIC TAX COVENANTS . . .** In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may omit to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

**ADDITIONAL COVENANTS . . .** The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

**REMEDIES IN EVENT OF DEFAULT . . .** The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 51 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. 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. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. CT. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be 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. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**CONSOLIDATION . . .** A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water system with the water system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water system with any other district.

**ANNEXATION . . .** The District lies within the extraterritorial jurisdiction of the City of Dripping Springs, Texas ("Dripping Springs"). Under Texas law, Dripping Springs cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for the District to be annexed, and Dripping Springs does annex, Dripping Springs will assume the District's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by Dripping Springs is a policy-making matter within the discretion of the Mayor and City Council of Dripping Springs and therefore, the District makes no representation that Dripping Springs will ever annex the District and assume its debt.

**ALTERATION OF BOUNDARIES . . .** In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

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

**AMENDMENTS TO THE BOND ORDER . . .** The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to

any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

### BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and 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 procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 the Bonds, in the aggregate principal amount of such issue, 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 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, 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/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, 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/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

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**USE AND DISTRIBUTION OF BOND PROCEEDS**

The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and (ii) water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$2,685,727 is estimated to be required for construction costs, and \$1,014,273 is estimated to be required for non-construction costs including \$231,114 of capitalized interest.

**SUMMARY OF COSTS**

		<u>District’s Share</u>
<b>I.</b>	<b><u>CONSTRUCTION COSTS</u></b>	
	A. Developer Contribution Items	
	1. Reunion Ranch Phase 1B – Water, Wastewater and Drainage.....	\$ 384,583
	2. Reunion Ranch Phase 1C – Water, Wastewater and Drainage.....	249,667
	3. Engineering (15.00% of Items Nos. 1-2).....	95,137
	Total Developer Costs.....	<u>\$ 729,387</u>
	B. District Items	
	1. Reunion Ranch Phase 1A – Wastewater Treatment Plant.....	\$ 2,039,674
	2. Engineering (15.00% of item No. 1).....	305,951
	Total District Costs.....	<u>\$ 2,345,625</u>
	<b>Total Construction Costs (80.41% of Bond Issue).....</b>	<b>\$ 3,075,012</b>
	<b>Less: Surplus Funds Balance.....</b>	<b><u>(389,285)</u></b>
	<b>Net Construction Costs (72.59% of BIR).....</b>	<b>\$ 2,685,727</b>
<b>II.</b>	<b><u>NON-CONSTRUCTION COSTS</u></b>	
	A. Legal Fees (1.25%).....	\$ 46,250
	B. Fiscal Agent Fees (1.5%).....	55,500
	C. Interest:	
	a. Capitalized Interest.....	231,114
	b. Developer Interest <sup>(a)</sup> .....	385,189
	D. Bond Discount (3%).....	111,000
	E. Bond Issuance Expenses.....	30,061
	F. Bond Application Report.....	50,000
	J. Attorney General Fee (0.10%).....	3,700
	K. TCEQ Fee (0.25%).....	9,250
	L. Contingency <sup>(b)</sup> .....	92,209
	<b>Total Non-Construction Costs.....</b>	<b>\$ 1,014,273</b>
	<b>TOTAL BOND ISSUE REQUIREMENT.....</b>	<b>\$ 3,700,000</b>

(a) Based on an interest rate of 4.1642087%. The District has requested to reimburse more than two years of interest in accordance with 30 TAC § 293.50(b). The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(b) The TCEQ, in its approval of the issuance of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

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## RISK FACTORS

**GENERAL . . .** The Bonds, which are obligations of the District and are not obligations of the State of Texas; Hays County, Texas; the City of Dripping Springs; Dripping Springs Independent School District, or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property located within the District. See “THE BONDS – Source of and Security for Payment.” The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. 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 property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “Registered Owners’ Remedies” below.

**FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . . *Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:*** A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers 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 existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and Homebuilders are able to obtain financing for development and construction costs. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. 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 development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

***Competition . . .*** The demand for single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of the Developer in the sale of 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 building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

***Developer under No Obligation to the District:*** There is no commitment from, or obligation of, any developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner’s right to sell its land, including any developer. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon developer and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPER” and “TAX DATA – Principal Taxpayers.”

***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 the District property owners to pay their taxes. The 2016 Certified Assessed Valuation is \$68,523,778 (see “FINANCIAL STATEMENT”). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$505,306 (2036) and the Average Annual Debt Service Requirement will be \$458,474 (2017 through 2041, inclusive). A tax rate of \$0.7763/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$505,306, and a tax rate of \$0.7043/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$458,474 based upon the 2016 Certified Taxable Assessed Valuation.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**TAX COLLECTIONS 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 cumbersome, time-consuming and expensive collection procedures or 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 STATEMENT – Estimated Overlapping Debt Statement"), by the current aggregate tax rate being levied against the property, and by other factors (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). 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 court could approve a confirmation plan which allows the debtor to make installment payments on delinquent taxes for up to six years and a bankruptcy court may reduce the amount of any taxes assessed against the debtor, including those that have already been paid.

**HOUSING MARKET, VOLATILITY AND RECENT FORECLOSURES . . .** In past years, disruptions in the housing market have led to a significant number of foreclosures on single family homes nationally. In the District, there were no posted foreclosures on single-family homes by the Hays County Clerk's Office as of October 7, 2016. No assurance can be given whether the number of foreclosures will decrease or increase or that market conditions will improve.

**REGISTERED OWNERS' REMEDIES . . .** In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest 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. Although the registered owners could obtain a judgment against the District, such a judgment 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 in order 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 laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

**BANKRUPTCY LIMITATION TO REGISTERED OWNERS' RIGHTS . . .** The enforceability of the rights and remedies of registered owners may be limited 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 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed 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 (1) is specifically 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 negotiations are impracticable. Under Texas law a water control and improvement district, 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, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving 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 applicable, the concomitant delay and loss of remedies to the registered owners 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 a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

**THE EFFECT OF THE FINANCIAL INSTITUTIONS ACT OF 1989 ON TAX COLLECTIONS OF THE DISTRICT . . .** The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, 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 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.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorneys fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and 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.

**MARKETABILITY . . .** The District has no understanding with the Initial Purchaser 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 for 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 Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

**FUTURE DEBT . . .** The District has reserved in the Bond Order the right to issue the remaining \$22,800,000 authorized but unissued unlimited tax bonds (for water, wastewater and drainage facilities) and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$22,800,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District’s engineer, the remaining authorization should be sufficient to reimburse the Developer for the development within the District. See “THE SYSTEM.”

To date, the Developer has advanced a total of approximately \$11,900,000 to construct utility facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer approximately \$5,960,000 for additional facilities which have been constructed to date.

The District anticipates that it may issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$22,800,000), in installments over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see “THE DEVELOPER – Utility Development Agreements.” The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission 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.” See “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED.”

**GOVERNMENTAL APPROVAL . . .** As required by law, engineering plans, specifications and an estimate of construction costs for the facilities and services to be purchased or constructed by the District with the proceed of the Bonds have been approved, subject to certain condition, by the TCEQ. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The TCEQ approved the issuance of the Bonds by an order signed October 17, 2016. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

**ENVIRONMENTAL REGULATION . . .** Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution; and
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water 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 as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Austin area. Under the Clean Air Act ("CAA") Amendments of 1990, the five-county "Austin Area" – Travis, Hays, Williamson, Bastrop, and Caldwell counties – has recently been redesignated by the EPA as an attainment area. The Austin Area entered into an early action compact (EAC) with the TCEQ and EPA which demonstrates attainment and maintenance of the 8-hour ozone standard. EACs allow regions that are in nonattainment or near nonattainment for ozone under the federal CAA to elect to use their knowledge of local conditions to determine which ozone control strategies should be implemented in their area, as opposed to having rules dictated by state and federal agencies.

The EPA signed a consent decree with several environmental organizations which bound the EPA to designating nonattainment areas for 8-hour nonattainment. The Austin Area took early action with an EAC on November 17, 2004 to reduce its emissions so as not to be designated nonattainment. Voluntary reductions have focused on reducing the number of vehicles on Austin Area roads, since vehicles are the area's main source of air pollution.

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC "CAAP" which includes control measures and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

On November 26, 2014, the EPA announced a new proposed ozone National Ambient air Quality Standards (NAAQS) range of between 65-70 parts per billion. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

Should the Austin Area fail to achieve attainment under an EPA NAAQS, or should the Austin Area fail to satisfy a then effective State Implementation Plan (SIP) (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of the nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

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

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the District to more than sixty (60) end users for consumption will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additionally, TCEQ is initiating rule changes to Chapter 290, Public Drinking Water, to implement the federal Stage 2 Disinfection Byproducts Rule (DBP2), Long Term Stage 2 Enhanced Surface Water Treatment

Rule (LT2), and Ground Water Rule (GWR). EPA adopted the GWR on December 31, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On August 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the District's ability to obtain TPDES permits and maintain those permits. The District may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties. Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormwater systems. The District may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

**Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.**

**DROUGHT CONDITIONS . . .** Central Texas, like other areas of the State, has experienced extreme drought conditions within the last several years. The District adopted a water conservation plan and currently has implemented water restrictions for residents of the District. The West Travis County Public Utility Agency provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions resume water usage, rates and water revenues could be impacted.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## THE DISTRICT

**GENERAL** . . . Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended, the District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater. 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 also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ, and is located entirely within the extraterritorial jurisdiction of Dripping Springs. Fire services are provided to residents and property owners of the District by Hays County ESD #6.

**MANAGEMENT** . . . *Board of Directors.* The District is governed by a Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Tuesday after the first Monday in November in each even numbered year. All of the directors listed below reside or own property in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Nathan Neese	President	2018
Vince Terracina	Vice President	2020
David Bosco, Jr.	Secretary	2018
George Sykes	Assistant Secretary	2020
Mike Ehrhardt	Assistant Secretary	2018

### Consultants:

*Tax Assessor/Collector* . . . Land and improvements in the District are being appraised by the Hays Central Appraisal District ("HCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Hays County Tax Assessor/Collector, Ms. Luanne Carraway, currently serves the District in this capacity under contract.

*Operator* . . . The District contracts with the Severn Trent Environmental Services to serve as operator for the District.

*Bookkeeper* . . . Bott & Douthitt, PLLC ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 60 other special districts.

*Engineer* . . . The District's consulting engineer is Murfee Engineering Company (the "Engineer"). Such firm serves as consulting engineer to 34 other special districts.

*Financial Advisor* . . . Specialized Public Finance Inc. serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

*Bond Counsel and Disclosure Counsel* . . . McCall, Parkhurst & Horton, L.L.P., Austin, Texas serves as Bond Counsel and Disclosure Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel and Disclosure Counsel are contingent upon the sale of and delivery of the Bonds.

*General Counsel* . . . The District employs Willatt & Flickinger, PLLC as general counsel.

**LOCATION** . . . The District is located in Hays County approximately 14 miles west of IH-35 and lies wholly inside of the extraterritorial jurisdiction of the City of Dripping Springs, Texas and within the Boundaries of the Dripping Springs Independent School District. The District is located approximately six miles south of State Highway 290, off Ranch-to-Market Road 1826. The District is currently comprised of approximately 524 acres being developed as Reunion Ranch, a single-family residential community. See "LOCATION MAP."

**UNDEVELOPED ACREAGE** . . . There are approximately 205 developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities as of September 1, 2016. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT – Status of Development."

**CURRENT STATUS OF DEVELOPMENT** . . . Of the approximately 524 acres within the District, approximately 318.865 acres have been developed. As of September 1, 2016, approximately 205 acres remain to be developed with utility facilities as the single family residential homes. As of September 1, 2016, the following sections have been developed with utility facilities: Sections 1 and 2; Phase 2, Sections 1, 2 and 3. As of this same date, the development in the District consisted of 150 completed homes (of which 140 are occupied and 10 are unoccupied), 35 homes under construction and 115 vacant lots.

To date, the developer has advanced funds in the approximate amount of \$11,900,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the developer approximately \$5,960,000 for additional water, wastewater and drainage facilities which have been constructed to date.

The chart below reflects the status of development as of September 1, 2016:

	<u>Net Acreage</u>
<b>A. Sections Developed with Utility Facilities</b>	
Sections 1 and 2; Phase 2, Sections 1-3	318.865 <sup>(a)</sup>
<b>Total Developed with Utility Facility or Under Construction</b>	<u>318.865</u>
<b>B. Remaining Developable Acreage</b>	205.205
<b>Total Developable Acreage</b>	<u>524.07</u>
<b>Total</b>	<u>524.07</u>

(a) Includes an approximately 2 acre amenity center. Also includes approximately 53.635 acres developed by the Developer but owned by Hays Reunion Ranch, L.P. See “THE DEVELOPER – Description of Developer.”

**FUTURE DEVELOPMENT . . .** There are remaining approximately 205 acres of land, as yet undeveloped with water, sewer & drainage facilities to support single family residential development. The initiation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, general and economic conditions which would affect any party’s ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption “RISK FACTORS.” If the undeveloped portion of the District is eventually developed, additions to the District’s water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues of the District’s bonds and developer contributions, if any, as required by the TCEQ. The District’s Engineer estimates that the \$22,800,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acreage within the District. See “THE BONDS – Issuance of Additional Debt.” The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that any future development will occur.

**ANNEXATION OF THE DISTRICT . . .** The District lies within the extraterritorial jurisdiction of the City of Dripping Springs. See “THE BONDS – Annexation” for a discussion of the ability of the City of Dripping Springs to annex the District.

**CONSENT AGREEMENT AND DEVELOPMENT AGREEMENT . . .** Effective August 15, 2005, the District entered into that certain Agreement Concerning Creation and Operation of the District (the “Consent Agreement”) with the City and Hays Reunion Ranch, L.P., a Texas limited partnership (“Hays Reunion Ranch”), governing certain aspects of development within the District, including certain aspects of the construction, operation, maintenance and inspection of District utility facilities; the issuance of bonds; conversion, annexation or dis-annexation by the District and annexation of the District by the City. Additionally, as contemplated by the Consent Agreement, the City and Hays Reunion Ranch entered into that certain Development Agreement dated as of February 7, 2012 (the “Development Agreement”) further governing certain aspects of development within the District such as environmental protection, deed restrictions, lighting and signage. Hays Reunion Ranch has subsequently assigned to the Developer certain of its right, title and interest in, to and under the Consent Agreement, effective April 2, 2012. Additionally, Hays Reunion Ranch has partially assigned to the Developer certain of its right, title and interest in, to and under the Development Agreement pursuant to three (3) separate partial assignment instruments, effective April 2, 2012; May 5, 2014 and January 30, 2015, respectively, with additional partial assignments contemplated upon the closing of additional takedowns under the Land Purchase Agreement (as defined herein).

*[The remainder of this page intentionally left blank]*

## THE DEVELOPER

**GENERAL . . .** In general, the activities of a developer in a utility district, such as the District, include purchasing the land within the utility district; coordinating the design of the subdivision; coordinating the design of the utilities and streets to be constructed in the subdivision; coordinating the design of any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of the improvements within the subdivisions, including water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, cable television, and electric service; and selling improved lots and commercial reserves to homebuilders, other developers, or other third parties. The relative success or failure of a developer to perform such activities will have a profound effect on the security of the bonds issued by the District. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily the major taxpayer within the district during the development phase of the property.

**DESCRIPTION OF DEVELOPER . . .** The developer currently active within the District is Taylor Morrison of Texas Inc. ("Taylor Morrison" or the "Developer"), a Texas corporation, controlled by Taylor Morrison Home Corp., a publicly-traded homebuilder with operations in Texas, Arizona, North Carolina, California, Colorado, Florida, Georgia and Illinois. As a publicly traded company, Taylor Morrison Home Corp. is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, files reports, proxy statements and other information with the United States Securities and Exchange Commission (the "SEC"), which are available online at [www.sec.gov](http://www.sec.gov). The Developer has purchased certain acreage within the District pursuant to that certain Agreement of Sale and Purchase, dated as of November 23, 2011, as thereafter amended (the "Land Purchase Agreement"), pursuant to which Developer agreed to purchase from Hays Reunion Ranch, approximately 472.46 acres of land in separate takedown parcels. According to the Developer, as of September 1, 2016, the Developer has closed upon takedowns constituting approximately 265.19 acres within the District and will own all of the approximately 524 acres within the District upon closing the final takedown, with the exception of approximately 53.635 acres of land retained by Hays Reunion Ranch, L.P. under the Land Purchase Agreement, which have been developed by the Developer and as such which will be sold primarily as custom lots by Hays Reunion Ranch (this approximately 53.635 acres and the approximately 265.19 acres closed on by the Developer, less the approximately 22.72 undevelopable acres, comprise the approximately 318.865 acres developed with utility facilities. See "THE DISTRICT – Current Status of Development." According to the Developer, the Developer is in compliance with the terms and conditions of the Land Purchase Agreement.

**ACQUISITION AND DEVELOPMENT FINANCING . . .** Acquisition and development of single-family residential property within the District has been provided by the Developer through its operations.

**HOMEBUILDERS WITHIN THE DISTRICT . . .** There is currently one homebuilder in the District, Taylor Morrison of Texas Inc. The homes range in price from \$400,000 to \$565,000, with square footage ranging from 2,000 to 4,500.

**UTILITY CONSTRUCTION AGREEMENT . . .** The District entered into a utility construction agreement (the "Utility Construction Agreement") with Pine Valley Reunion Ranch, L.P., a Texas limited partnership ("Pine Valley"), dated November 11, 2005 (the "Original Utility Construction Agreement"), governing the development of water, wastewater and drainage facilities and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. Pine Valley subsequently assigned all of its right, title and interest in, to and under the Original Utility Construction Agreement to Hays Reunion Ranch, which in turn assigned all of its right, title and interest in, to and under the Original Utility Construction Agreement to the Developer on or about April 2, 2012. Thereafter, the District and Developer entered into a new utility construction agreement, effective April 25, 2012, revising and restating the Original Utility Construction Agreement in its entirety.

**AGRICULTURAL WAIVER . . .** Much of the undeveloped acreage within the District is subject to an agricultural exemption; however, the Developer has executed an agreement, which is recorded in the real property records of Hays County, and are covenants running with the land, waiving the right to have the land located within the District classified as agricultural, open-space or timberland for purposes of District taxes. In addition, the Developer has waived the right to have the lots and houses (if any) in the District classified as business inventory for purposes of District taxes. The agreement may not be modified without the approval of the TCEQ and are binding on purchasers of such land from the Developer. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

## THE SYSTEM

**REGULATION . . .** The water, wastewater and storm drainage facilities (the "System"), the purchase, acquisition and construction of which will be permanently financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Hays County and Dripping Springs. According to Murfee Engineering Company (the "Engineer"), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the U.S. Environmental Protection Agency and the TCEQ.

**WATER SUPPLY AND DISTRIBUTION . . .** The District receives its treated water from the West Travis County Public Utility Agency (“WTCPUA”), successor to the Lower Colorado River Authority (“LCRA”). Pursuant to the Second Amendment to the Water Services Agreement dated March 28, 2014, the WTCPUA is obligated to provide up to 603,692 gallons per day of treated water to the District. The District’s engineer estimates that this amount of water would be sufficient to serve up to 524 equivalent single-family connections.

**WASTEWATER COLLECTION AND TREATMENT . . .** Wastewater treatment for the District is provided by a 0.05 million gallon per day (MGD) wastewater treatment plant. Texas Pollutant Discharge Elimination System permit number WQ0014480001 authorizes a discharge of 0.05 MGD, with disposal via drip irrigation. Based upon a conservative design factor of 150 gallons per day per connection, the District’s existing treatment capacity is sufficient to serve up to 333 single family connections. The District is in the preliminary planning stages for a 2<sup>nd</sup> wastewater treat plant to be funded from future Developer advances (and ultimately purchased by the District with the proceeds of future District bonds).

**STORM WATER DRAINAGE . . .** Storm water within the District generally drains through roadside swales with street and driveway culverts and ribbon curbing, eventually discharging into tributaries that drain into Bear Creek.

**100-YEAR FLOOD PLAIN AND STORM DRAINAGE INFORMATION . . .** According to the Engineer, 22.7 acres within the District are currently located in the floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated June 16, 1993 for Hays County, as amended on April 24, 2014.

**WATER, WASTEWATER AND DRAINAGE OPERATIONS:**

**TABLE 1 – RATE AND FEE SCHEDULE**

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the monthly rates and fees for the District’s water and sewer service which are currently in effect.

Monthly Base Charge – Water: \$40.00

Water Usage Charge

<u>Gallons</u>			
0-10,000 Gallons	\$	3.50	(per 1,000 gallons)
10,001-15,000 Gallons	\$	3.85	(per 1,000 gallons)
15,001-20,000 Gallons	\$	4.40	(per 1,000 gallons)
20,001-25,000 Gallons	\$	5.65	(per 1,000 gallons)
25,001-30,000 Gallons	\$	7.00	(per 1,000 gallons)
30,001-40,000 Gallons	\$	12.00	(per 1,000 gallons)
40,001 and over Gallons	\$	15.00	(per 1,000 gallons)

Monthly Charge(s) – Wastewater: \$ 35.00 Base Fee, plus \$3.25 per 1,000 Gallons

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**TABLE 2 – OPERATING REVENUES AND EXPENSES STATEMENT – GENERAL FUND**

The following statement sets forth in condensed form the consolidated historical operations of the District’ General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District’s financial statements and records. Reference is made to such statements for further and more complete information. Also see “APPENDIX A – Excerpts from the Annual Financial Report.”

	Fiscal Year End September 30,		
	2015	2014	2013
<u>Revenues:</u>			
Service Accounts/Penalties	\$ 224,142	\$ 133,534	\$ 68,572
Property Taxes/Penalties	180,683	-	-
Connection/Inspection Fees	81,800	87,950	73,550
Other/Developer Advances	70,738	141,438	159,713
Total Revenues	<u>\$ 557,363</u>	<u>\$ 362,922</u>	<u>\$ 301,835</u>
<u>Expenditures:</u>			
Water Reservation Fees	\$ 116,511	\$ 90,238	\$ 101,305
District Operations	179,206	115,124	23,008
Professional Fees	101,937	149,379	117,063
Other	23,146	19,767	12,482
Total Expenditures	<u>\$ 420,800</u>	<u>\$ 374,508</u>	<u>\$ 253,858</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 136,563	\$ (11,586)	\$ 47,977
Beginning Fund Balance	\$ 29,059	\$ 40,645	\$ (7,332)
Adjustments	-	-	-
Ending Fund Balance	<u>\$ 165,622</u>	<u>\$ 29,059</u>	<u>\$ 40,645</u>

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TABLE 3 – DEBT SERVICE SCHEDULE

Fiscal Year Ended 9/30	Outstanding Debt			The Bonds			Total Debt Service
	Principal	Interest	Total	Principal	Interest <sup>(a)</sup>	Total	
	2017	\$ -	\$ 125,660	\$ 125,660	\$ -	\$ 90,114	
2018	80,000	125,660	205,660	90,000	139,231	229,231	434,891
2019	85,000	124,260	209,260	95,000	136,531	231,531	440,791
2020	90,000	122,560	212,560	95,000	133,681	228,681	441,241
2021	95,000	120,535	215,535	100,000	130,831	230,831	446,366
2022	100,000	118,160	218,160	105,000	127,831	232,831	450,991
2023	105,000	115,410	220,410	110,000	124,681	234,681	455,091
2024	110,000	112,260	222,260	115,000	121,381	236,381	458,641
2025	115,000	108,850	223,850	125,000	117,931	242,931	466,781
2026	120,000	105,256	225,256	130,000	114,025	244,025	469,281
2027	130,000	101,356	231,356	135,000	109,638	244,638	475,994
2028	135,000	96,806	231,806	140,000	104,913	244,913	476,719
2029	145,000	92,081	237,081	145,000	100,013	245,013	482,094
2030	150,000	86,825	236,825	155,000	94,756	249,756	486,581
2031	160,000	81,200	241,200	160,000	88,944	248,944	490,144
2032	165,000	75,200	240,200	170,000	82,944	252,944	493,144
2033	175,000	68,600	243,600	175,000	76,144	251,144	494,744
2034	185,000	61,600	246,600	185,000	69,144	254,144	500,744
2035	195,000	54,200	249,200	190,000	61,744	251,744	500,944
2036	210,000	46,400	256,400	195,000	53,906	248,906	505,306
2037	220,000	38,000	258,000	200,000	45,863	245,863	503,863
2038	230,000	29,200	259,200	205,000	37,613	242,613	501,813
2039	245,000	20,000	265,000	210,000	28,900	238,900	503,900
2040	255,000	10,200	265,200	215,000	19,975	234,975	500,175
2041	-	-	-	255,000	10,838	265,838	265,838
	<u>\$ 3,500,000</u>	<u>\$ 2,040,280</u>	<u>\$ 5,540,280</u>	<u>\$ 3,700,000</u>	<u>\$ 2,221,570</u>	<u>\$ 5,921,570</u>	<u>\$11,461,850</u>

(a) Interest calculated at the rates set forth on the inside cover page.

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**FINANCIAL STATEMENT  
(Unaudited)**

**TABLE 4 – ASSESSED VALUE**

2014 Certified Assessed Valuation .....	\$ 20,303,767 (a)
2015 Certified Taxable Assessed Valuation .....	\$ 39,867,562 (a)
2016 Certified Taxable Assessed Valuation .....	\$ 68,523,778 (a)
Estimated Taxable Assessed Valuation as of September 28, 2016 .....	\$ 76,000,000 (b)
 Gross Direct Debt Outstanding .....	 \$ 7,200,000 (c)
 Ratio of Gross Direct Debt Outstanding to 2016 Certified Assessed Valuation .....	 10.51%
Ratio of Gross Direct Debt Outstanding to Estimated Taxable Assessed Valuation as of 9-28-16.....	9.47%

Estimated Population as of September 1, 2016: 490<sup>(d)</sup>

- (a) Assessed valuation of the District as reported by the Hays Central Appraisal District (“HCAD”). See “TAXING PROCEDURES.”
- (b) Estimated Taxable Assessed Valuation as of September 26, 2016, as provided by HCAD is included solely for the purposes of illustration.
- (c) Includes the Bonds. See “DEBT SERVICE REQUIREMENTS.”
- (d) Based upon 3.5 residents per completed and occupied single family home.

**TABLE 5 – UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Water, Sewer, Drainage	11/6/2012	\$ 30,000,000	\$ 3,500,000	\$ 3,700,000	\$ 22,800,000
Refunding	11/6/2012	45,000,000	-	-	45,000,000
Total		<u>\$ 75,000,000</u>	<u>\$ 3,500,000</u>	<u>\$ 3,700,000</u>	<u>\$ 67,800,000</u>

**TABLE 6 – CASH AND INVESTMENT BALANCES<sup>(a)(b)</sup>**

Operating Fund .....	\$ 292,804
Debt Service Fund.....	\$ 479,547
Capital Projects Fund.....	\$ 389,980

- (a) Unaudited as of September 7, 2016.
- (b) Includes capitalized interest (\$231,114) which is projected to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . .** Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating

agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 7 – CURRENT INVESTMENTS**

As of September 7, 2016, the District is currently invested in a bank Money Market Fund and TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District’s audited financial statements.

Investments	Market Value	% of Total
TexPool	\$ 638,413	68.6%
Money Market	292,804	31.4%
	<u>\$ 931,217</u>	<u>100.00%</u>

**ESTIMATED OVERLAPPING DEBT STATEMENT . . .** Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in “Texas Municipal Reports,” published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivision overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 8/31/16
Hays County	\$ 302,365,000	0.15%	\$ 453,548
Dripping Springs ISD	191,069,999	1.30%	2,483,910
Caldwell Hays ESD #1	-	1.00%	-
Hays County ESD #6	-	1.00%	-
Reunion Ranch WCID	7,200,000	100.00%	<u>7,200,000</u> <sup>(a)</sup>
Total Direct and Overlapping Tax Supported Debt			\$ 10,137,457
Ratio of Direct and Overlapping Tax Supported Debt to 2016 Certified TAV			14.79%

(a) Includes the Bonds.

**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 “FINANCIAL STATEMENT – Estimated Overlapping Debt Statement”), 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 2016 tax year by all taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2016 Tax Rate Per \$100 Assessed Valuation
Hays County .....	\$ 0.4600
Dripping Springs Independent School District.....	1.5200
Caldwell Hays ESD #1 .....	0.1000
Hays County ESD #6 .....	<u>0.0800</u>
Total Overlapping Tax Rate .....	\$ 2.1600
The District .....	<u>0.8750</u>
Total Tax Rate .....	\$ 3.0350

**TAX DATA**

**TABLE 8 – TAX COLLECTIONS**

The following statement of tax collections sets forth in condensed form the historical fiscal year tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District’s Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Fiscal Year Ended 9/30	Tax Rate	General Operating Fund	Debt I&S Fund	Tax Levy	% Total Collections
2015	\$ 0.8750	\$ 0.8750	\$ -	\$ 177,658	100.00%
2016 <sup>(a)</sup>	0.8750	0.7750	0.1000	348,841	99.77%
2017	0.8750	0.5250	0.3500	599,583	N/A

(a) Collections through August 31, 2016.

**TABLE 9 – DISTRICT TAX RATES**

	<b>Tax Rates per \$100 Assessed Valuation</b>		
	<b>FY2017</b>	<b>FY2016</b>	<b>FY2015</b>
	Debt Service	\$ 0.3500	\$ 0.1000
Maintenance	0.5250	0.7750	0.8750
Total	\$ 0.8750	\$ 0.8750	\$ 0.8750

**TAX RATE LIMITATION . . .** The District’s tax rate for debt service on the Bonds is legally unlimited as to rate and amount.

**MAINTENANCE TAX . . .** The District has the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District’s facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District’s voters. An election for such a tax was held on November 7, 2006 at which time a maintenance tax not to exceed \$1.00 per \$100 assessed valuation was approved by the District’s voters. The District adopted a 2016 tax year maintenance tax of \$0.5250 in September 2016.

**TABLE 10 – PRINCIPAL TAXPAYERS . . .** The following list of principal taxpayers was provided by the Hays Central Appraisal District based on the 2016 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Taxable Assessed Value	% of 2016 Taxable Assessed Valuation
Taylor Morrison of Texas Inc. <sup>(a)</sup>	\$ 8,437,180	12.31%
Hays Reunion Ranch LP	2,373,930	3.46%
Imler, Aaron R. & Marysol	637,660	0.93%
Lew, Rex Gee Quan & Akemie	614,260	0.90%
Stevens, Riley	593,868	0.87%
Willis, Robert J.	589,550	0.86%
Ng, Harjono	577,420	0.84%
Reese, David J. & Aimee P.	577,130	0.84%
Larock, Brett & Holly	575,050	0.84%
Bystron, Clark & Maureen	565,440	0.83%
	<u>\$ 15,541,488</u>	<u>22.68%</u>

(a) The Developer.

## TAXING PROCEDURES

**AUTHORITY TO LEVY TAXES . . .** The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – District Bond Tax Rate Limitation,” and “TAX DATA – 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 herein.

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 the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. HCAD has the responsibility for appraising property for all taxing units within Hays County, including the District. Such appraisal values are subject to review and change by the Hays Central Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

**PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . . General:** Except for certain exemptions provided by State 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; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: 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; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by Pqualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence 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. Furthermore, subject to certain conditions, the Texas Constitution provides that the surviving spouse of a 100 percent disabled veteran will qualify for the ad valorem tax exemption on the same or subsequently qualified homestead for the same portion of the market value to which the disabled veteran’s exemption would have applied, as if the exemption was in effect on the date the disabled veteran died. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District’s voters may approve. The District’s tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

**Residential Homestead . . .** The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The District has never adopted a general homestead exemption.

**Tax Abatement . . .** Hays County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

**Goods-in-Transit . . .** Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing

inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. In February, 2008, the Board conducted a public hearing on the question of whether to provide for taxation of goods-in-transit and adopted a Resolution Providing for Taxation of Goods-in-Transit, by which the District took official action to tax goods-in-transit.

**VALUATION OF PROPERTY FOR TAXATION . . .** Generally, property in the District must be appraised by the HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally 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.

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 that such property would bring if sold as a unit to a purchaser who would continue the business. 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 years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the HCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the HCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the HCAD 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 HCAD 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 HCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals 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 the collection functions to another governmental entity. By August 15 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due December 31, or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

**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 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 rate 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 on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all 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 STATEMENT – Estimated Overlapping Debt Statement." 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. 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 (a taxpayer may redeem residential homestead property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records other property may be redeemed by a taxpayer within 180 days of such filing) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "RISK FACTORS – Tax Collections and Foreclosure Remedies."

**EFFECT OF FIRREA ON TAX COLLECTIONS . . .** The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains 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 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 lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the 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 FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## LEGAL MATTERS

**LEGAL OPINIONS . . .** Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

**NO-LITIGATION CERTIFICATE . . .** The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

**NO MATERIAL ADVERSE CHANGE . . .** The obligations of the Initial Purchaser 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 Official Statement.



## TAX MATTERS

**OPINION . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”) (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX B – Form of Bond Counsel Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel’s opinion represents its legal judgement based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

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

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

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer’s alternative minimum taxable income, if the amount of such alternative minimum tax is greater than the taxpayer’s regular income tax for the taxable year.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

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

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

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a

taxpayer that is a “financial institution” allocable to tax-exempt obligation, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

### CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. 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 (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to certain information to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 9 and in “APPENDIX A – Excerpts from the Annual Financial Report,” if such audited financial statements in APPENDIX A are then available. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if completed by the required time. If audited financial statements are not available within twelve months after any such fiscal year end, the District will file unaudited financial statements within twelve months after any such fiscal year end, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in “APPENDIX A – Excerpts from the Annual Financial Report” or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

**NOTICE OF CERTAIN EVENTS . . .** The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing

body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

**AVAILABILITY OF INFORMATION FROM THE MSRB . . .** The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm is currently employed as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

#### **OFFICIAL STATEMENT**

**PREPARATION . . .** The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “THE DISTRICT.” The Board of Directors in its official capacity has relied upon the below-mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

THE DISTRICT – Engineer and the Developer; “THE DEVELOPER” – Taylor Morrison of Texas, Inc.; “THE SYSTEM” (except Tables 1 and 2) – Engineer; “UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED” – Records of the District (“Records”); “FINANCIAL STATEMENT” – Hays Central Appraisal District; “ESTIMATED OVERLAPPING DEBT STATEMENT” – Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” and “OPERATING REVENUES AND EXPENSES STATEMENT” – Audits, Records and Tax Assessor/Collector; “MANAGEMENT” – District Directors; “DEBT SERVICE REQUIREMENTS” – Financial Advisor; “THE BONDS,” “LEGAL MATTERS,” “TAXING PROCEDURES,” “CONTINUING DISCLOSURE OF INFORMATION” and “TAX MATTERS” – McCall, Parkhurst & Horton L.L.P.

**CONSULTANTS . . .** In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

The Engineer: The information contained in the Official Statement relating to engineering matters 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 the Engineer, and has been included in reliance upon the authority of said firm in the field of civil engineering.

Auditor: The District's financial statements for fiscal year ending September 30, 2014 were audited by Maxwell Locke and Ritter LLP, Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2015 have been included as APPENDIX A in reliance upon such firm's authority in the field of accounting.

**UPDATING THE OFFICIAL STATEMENT DURING UNDERWRITING PERIOD . . .** If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide and Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale under the heading "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS – Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

**CERTIFICATION AS TO OFFICIAL STATEMENT . . .** The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Initial Purchaser.

**ANNUAL AUDITS . . .** Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year so long as the District has bond outstanding. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

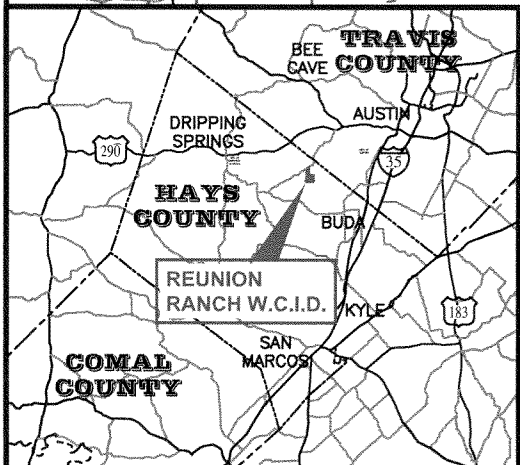
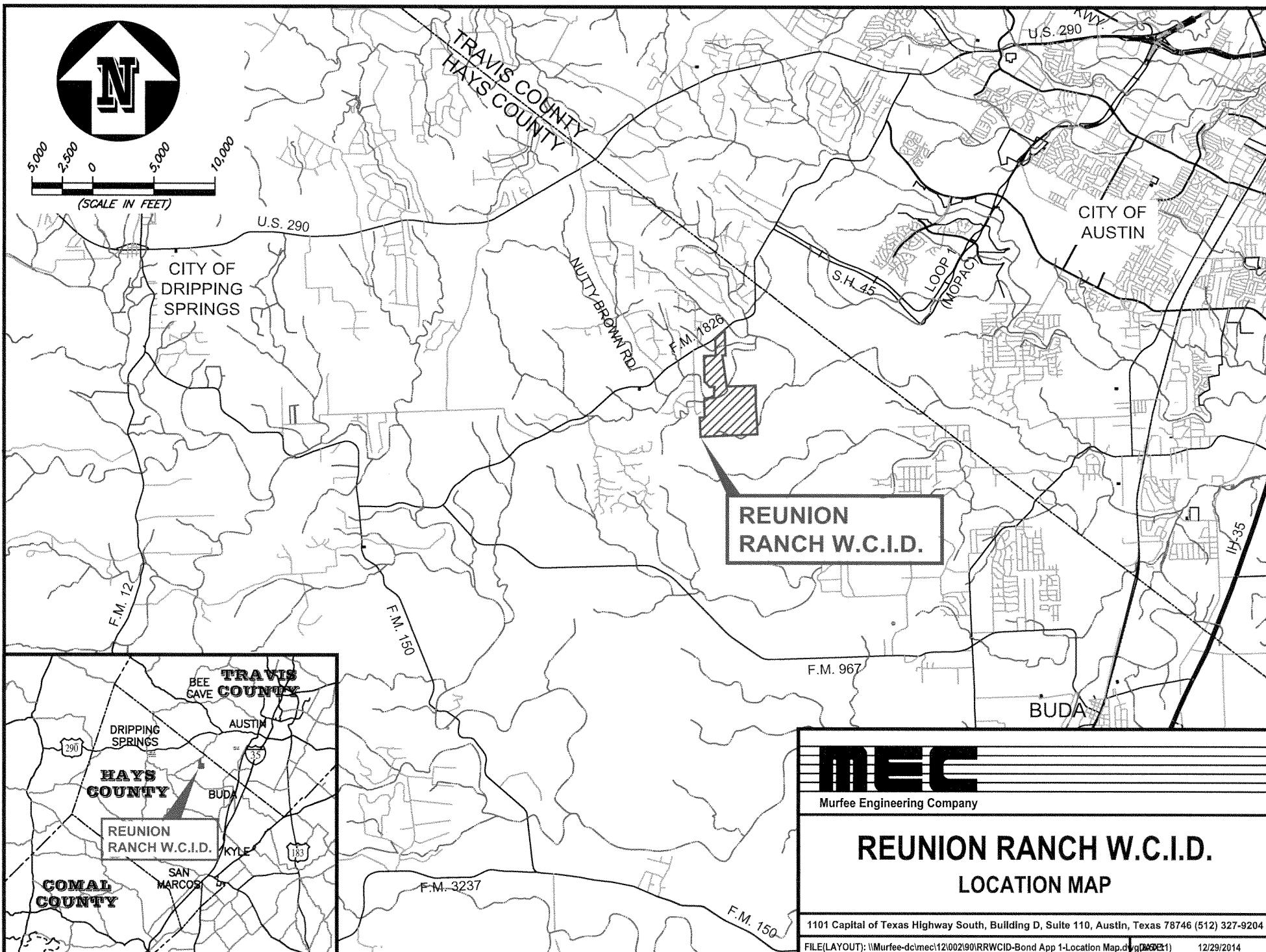
This Official Statement was approved by the Board of Directors of Reunion Ranch Water Control and Improvement District, as of the date shown on the first page hereof.


/s/ DAVID BOSCO, JR.  
Secretary, Board of Directors  
Reunion Ranch WCID

/s/ NATHAN NEESE  
President, Board of Directors  
Reunion Ranch WCID

## LOCATION MAP

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 Murfee Engineering Company
<b>REUNION RANCH W.C.I.D.</b> <b>LOCATION MAP</b>
1101 Capital of Texas Highway South, Building D, Suite 110, Austin, Texas 78746 (512) 327-9204
FILE(LAYOUT): \\Murfee-dclmec12\002\90\IRRWCID-Bond App 1-Location Map.dwg (PAGE:1) 12/29/2014



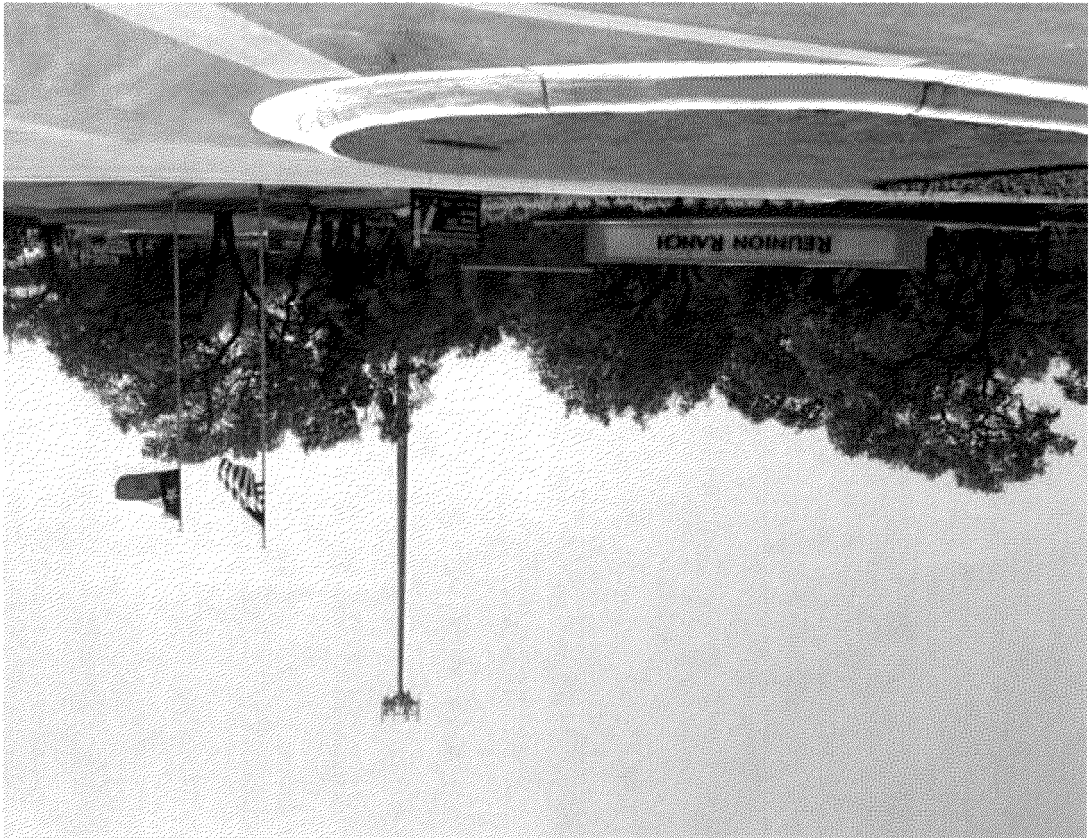
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## **PHOTOGRAPHS**

The homes shown in the attached photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction.

The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."

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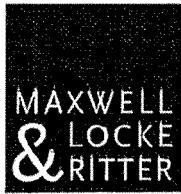
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**APPENDIX A**

**EXCERPTS FROM THE ANNUAL FINANCIAL REPORT**

The information contained in this APPENDIX has been excerpted from the financial statements of Reunion Ranch Water Control and Improvement District for the fiscal year ended September 30, 2015, as prepared by the District's auditor Maxwell Locke & Ritter.

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MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

tel (512) 370 2200 fax (512) 370 3250  
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100  
Austin, TX 78701

Round Rock: 303 East Main Street  
Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Reunion Ranch Water Control and Improvement District:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of Reunion Ranch Water Control and Improvement District (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's 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.

### **Auditors' Responsibility**

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"  
This firm is not a CPA firm



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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the District as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-6 and FS-13, respectively, 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 to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Texas supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Maxwell Socha + Patten LLP*

Austin, Texas  
January 19, 2016

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Reunion Ranch Water Control and Improvement District (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the nonspendable and unassigned fund balance totaled \$165,622 for the General Fund, an increase of \$136,563 from the previous fiscal year. General Fund revenue increased from \$221,574 in the previous fiscal year to \$486,689 in the current fiscal year. Developer advances decreased from \$141,348 in the previous fiscal year to \$70,674 in the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$66,704 in the current fiscal year. Net position increased from a deficit balance of \$457,673 at September 30, 2014 to a deficit balance of \$390,969 at September 30, 2015.

**OVERVIEW OF THE DISTRICT**

The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated August 15, 2005 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution.

**USING THIS ANNUAL REPORT**

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Notes to the Basic Financial Statements*
4. *Required Supplementary Information*
5. *Texas Supplemental Information* (required by the Texas Commission on Environmental Quality (the TSI section))

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**USING THIS ANNUAL REPORT (continued) -**

For purposes of GASB 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "General Fund" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position and Governmental Fund Balance Sheet* includes a column (titled "General Fund") that represents a balance sheet prepared using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net position will indicate financial health.

The *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance* includes a column (titled "General Fund") that derives the change in fund balance resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Position and Governmental Fund Balance Sheet* and the *Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance*.

The *Required Supplementary Information* presents a comparison statement between the District's adopted budget and its actual results.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2015	2014	
Current and other assets	\$ 287,690	\$ 117,097	\$ 170,593
Capital and non-current assets	-	-	-
Total Assets	<u>\$ 287,690</u>	<u>\$ 117,097</u>	<u>\$ 170,593</u>
Current liabilities	\$ 121,253	\$ 88,038	\$ 33,215
Long-term liabilities	557,406	486,732	70,674
Total Liabilities	<u>678,659</u>	<u>574,770</u>	<u>103,889</u>
Unrestricted	<u>(390,969)</u>	<u>(457,673)</u>	66,704
Total Net Position	<u>\$ (390,969)</u>	<u>\$ (457,673)</u>	<u>\$ 66,704</u>

The District's net position increased by \$66,704 during the 2015 fiscal year to a deficit balance of \$390,969 at September 30, 2015, up from the previous year's deficit balance of \$457,673.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) -**

**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase
	2015	2014	(Decrease)
Property taxes, including penalties	\$ 181,498	\$ -	\$ 181,498
Service accounts, including penalties	224,142	133,534	90,608
Connection/inspection fees	81,800	87,950	(6,150)
Other	64	90	(26)
<b>Total Revenues</b>	<b>487,504</b>	<b>221,574</b>	<b>265,930</b>
Water reservation fees/monthly charges/ purchases	116,511	90,238	26,273
District operations	179,206	115,124	64,082
Professional fees	101,937	149,379	(47,442)
Other	23,146	19,767	3,379
<b>Total Expenses</b>	<b>420,800</b>	<b>374,508</b>	<b>46,292</b>
<b>Change in Net Position</b>	<b>\$ 66,704</b>	<b>\$ (152,934)</b>	<b>\$ 219,638</b>

Revenues were \$487,504 for the fiscal year ended September 30, 2015 while expenses were \$420,800. Net position increased \$66,704 during the 2015 fiscal year.

On September 10, 2014, the District levied its first property tax on residents of the District. Property tax revenues in the current fiscal year totaled \$181,498. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2014 tax year (September 30, 2015 fiscal year) were based upon a current assessed value of \$20,303,767 and a tax rate of \$0.875 per \$100 of assessed valuation.

The tax rate levied is determined after the District's Board of Directors reviews the General Fund budget requirements and the Debt Service Fund debt service obligations of the District, if any. At September 30, 2015, property taxes composed over 37% of the District's total revenue sources.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**ANALYSIS OF GOVERNMENTAL FUND**

Governmental Fund by Year

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 154,126	\$ 75,594
Service accounts receivable	48,396	34,533
Taxes receivable	815	-
Other	8,024	3,770
Prepaid expenditures	<u>76,329</u>	<u>3,200</u>
Total Assets	<u>\$ 287,690</u>	<u>\$ 117,097</u>
Accounts payable	\$ 58,140	\$ 49,448
Other	<u>63,113</u>	<u>38,590</u>
Total Liabilities	<u>121,253</u>	<u>88,038</u>
Deferred Inflows of Resources	<u>815</u>	<u>-</u>
Nonspendable	76,329	3,200
Unassigned	<u>89,293</u>	<u>25,859</u>
Total Fund Balance	<u>165,622</u>	<u>29,059</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 287,690</u>	<u>\$ 117,097</u>

As of September 30, 2015, the District's governmental fund reflects a fund balance of \$165,622. This fund balance includes a \$136,563 increase in the General Fund balance in fiscal year 2015. Revenues and other financing sources were \$486,689 and \$70,674, respectively, for the fiscal year ended September 30, 2015, while expenditures were \$420,800. At September 30, 2014, the District's governmental fund reflected a fund balance of \$29,059. In fiscal year 2014, revenues and other financing sources were \$221,574 and \$141,348, respectively, while expenditures were \$374,508.

**LONG-TERM DEBT ACTIVITY**

At September 30, 2015, unlimited tax bonds of \$30,000,000 were authorized by the voters of the District, but unissued. The District's population as provided by the District is 361 as of September 30, 2015.

At September 30, 2015, the District owed \$557,406 to the developer for advances used to fund general operating activities of the District.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating expenditures. The Board of Directors adopted a budget on August 19, 2014 for the 2015 fiscal year. The budget included revenues of \$390,722 as compared to expenditures of \$368,098 for the 2015 fiscal year. When comparing actual figures to budgeted amounts, the District had an overall positive variance of \$113,939 primarily due to increased service accounts collections and \$70,674 in unbudgeted advances received from the developer. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The property tax assessed value for 2015 (September 30, 2016 fiscal year) is approximately \$37.2 million. The fiscal year 2015 tax rate is \$0.875 on each \$100 of taxable value. Approximately 89% of the property tax collections will fund general operating expenditures and the remaining 11% will be set aside for debt service.

The adopted budget for fiscal year 2016 projects an operating fund balance increase of \$128,913. Compared to the fiscal year 2015 budget, revenues are expected to increase by approximately \$168,000 and expenditures are expected to increase by approximately \$62,000.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District in care of Willatt & Flickinger, 2001 North Lamar Blvd, Austin, Texas 78705.



**BASIC  
FINANCIAL STATEMENTS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET  
SEPTEMBER 30, 2015**

	<u>General Fund</u>	<u>Adjustments Note 2</u>	<u>Government - Wide Statement of Net Position</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents:			
Cash	\$ 133,424	\$ -	\$ 133,424
Cash equivalents	20,702	-	20,702
Receivables:			
Service accounts, net of allowance for doubtful accounts of \$ - 0 -	48,396	-	48,396
Taxes	815	-	815
Other	8,024	-	8,024
Prepaid expenditures	76,329	-	76,329
<b>TOTAL ASSETS</b>	<b>\$ 287,690</b>	<b>-</b>	<b>287,690</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 58,140	-	58,140
Accrued payables	43,653	-	43,653
Refundable deposits	19,460	-	19,460
Long-term liabilities-			
Due to developer	-	557,406	557,406
<b>TOTAL LIABILITIES</b>	<b>121,253</b>	<b>557,406</b>	<b>678,659</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Property taxes	815	(815)	-
Total deferred inflows of resources	815	(815)	-
<b><u>FUND BALANCE</u></b>			
Fund balance:			
Nonspendable	76,329	(76,329)	-
Unassigned	89,293	(89,293)	-
<b>TOTAL FUND BALANCE</b>	<b>165,622</b>	<b>(165,622)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 287,690</b>		
<b><u>NET POSITION</u></b>			
Unrestricted		(390,969)	(390,969)
<b>TOTAL NET POSITION</b>		<b>\$ (390,969)</b>	<b>\$ (390,969)</b>

*The accompanying notes are an integral part of this statement.*

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**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED SEPTEMBER 30, 2015**

	General Fund	Adjustments Note 2	Government - Wide Statement of Activities
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 180,683	\$ 815	\$ 181,498
Service accounts, including penalties	224,142	-	224,142
Connection/inspection fees	81,800	-	81,800
Other	64	-	64
<b>TOTAL REVENUES</b>	<b>486,689</b>	<b>815</b>	<b>487,504</b>
<b>EXPENDITURES / EXPENSES:</b>			
Water monthly charges/purchases	94,372	-	94,372
Operations	50,305	-	50,305
Repairs and maintenance	49,386	-	49,386
Engineering fees	39,319	-	39,319
Legal fees	37,468	-	37,468
Connections/inspections	32,453	-	32,453
Water reservation fees	22,139	-	22,139
Chemicals/lab fees	19,583	-	19,583
Bookkeeping fees	18,150	-	18,150
Landscape maintenance	12,595	-	12,595
Utilities	10,296	-	10,296
Insurance	9,538	-	9,538
Director fees, including payroll taxes	8,235	-	8,235
Audit fees	7,000	-	7,000
Sludge hauling	4,588	-	4,588
Tax collector/assessor fees	3,294	-	3,294
Permit fees	1,415	-	1,415
Other	664	-	664
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>420,800</b>	<b>-</b>	<b>420,800</b>
Excess of revenues over expenditures	65,889	815	66,704
<b>OTHER FINANCING SOURCES -</b>			
Advances from developer	70,674	(70,674)	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>70,674</b>	<b>(70,674)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>136,563</b>	<b>(136,563)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>		<b>66,704</b>	<b>66,704</b>
<b>FUND BALANCE / NET POSITION:</b>			
Beginning of the year	29,059	(486,732)	(457,673)
End of the year	\$ 165,622	\$ (556,591)	\$ (390,969)

*The accompanying notes are an integral part of this statement.*

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**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Reunion Ranch Water Control and Improvement District (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below, and, where appropriate, subsequent pronouncements will be referenced.

*Reporting Entity* - The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated August 15, 2005 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the "Board") which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District's reporting entity.

*Basis of Presentation - Government-Wide and Fund Financial Statements* - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information the Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted General Fund budget with actual results.

- **Government-Wide Financial Statements:** The District's Statement of Net Position includes non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District's capital assets, if any, including infrastructure.

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from financial activities of the fiscal period. The focus of the fund financial statements is on the individual funds of the governmental categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures of either fund category) for the determination of major funds.

*Governmental Fund Types* - The accounts of the District are organized and operated on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures. The various funds are grouped by category and type in the financial statements. The District maintains the following fund type:

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues, if any, and other sources of revenue used to finance the fundamental operations of the District are included in this fund.

*Non-current Governmental Assets and Liabilities* - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide financial statement column in the Statement of Net Position.

*Basis of Accounting*

- **Governmental Funds**

*Government-Wide Statements* - The government-wide financial statement column is reported using 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 revenues in the year for which they are levied.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

• **Governmental Funds (continued) -**

*Fund Financial Statements* - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in the fund balance. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available).

“Measurable” means that the amount of the transaction can be determined and “available” means the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt, if issued and outstanding, which is recognized when due. This exception is in conformity with generally accepted accounting principles.

Property tax revenues, if any, are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. The District made no such accrual for the year ended September 30, 2015. All other revenues of the District are recorded on the accrual basis in all funds.

The District may report deferred inflows of resources on its combined balance sheet. Deferred inflows arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In subsequent periods, when revenue recognition criteria are met, the balance for deferred inflows is removed from the combined balance sheet and revenue is recognized.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

*Budgets and Budgetary Accounting* - A budget was adopted on August 19, 2014, for the General Fund on a basis consistent with GAAP. The District's Board utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end. The budget was not amended during the current fiscal year. For the year ended September 30, 2015, expenditures exceeded budget in the General Fund by \$52,702.

*Accounting Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* - Cash and cash equivalents includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer's Investment Pool, are recorded at cost, which approximates fair market value.

*Accounts Receivable* - The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District believes all accounts were collectible at September 30, 2015.

*Prepaid Expenditures* - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in both the government-wide and fund financial statements. Prepaid expenditures shall be charged to expenditures when consumed.

*Deferred Outflows and Deferred Inflows of Resources* - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.



**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) -**

*Ad Valorem Property Taxes* - Property taxes, penalties, and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District. Allowances for uncollectible property taxes are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

*Fund Equity* - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 7 for additional information on those fund balance classifications.

**2. RECONCILIATION OF THE GOVERNMENTAL FUND**

Adjustments to convert the Governmental Fund Balance Sheet to the Statement of Net Position are as follows:

Fund balance - General Fund	\$ 165,622
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred inflows of resources for revenues earned but not available.	815
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund -	
Developer advances	(557,406)
Net position of governmental activities	\$ (390,969)

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUND (continued) -**

Adjustments to convert the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities are as follows:

Change in fund balance - General Fund	\$ 136,563
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental fund reports:	
Tax revenue in the year collected	815
Developer advances in year received	<u>(70,674)</u>
Change in net position of governmental activities	<u>\$ 66,704</u>

**3. CASH AND CASH EQUIVALENTS**

The investment policies of the District are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act") and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy, which complies with the Public Funds Investment Act, include: depositories must be Federal Deposit Insurance Corporation ("FDIC") insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; securities collateralizing time deposits are held by independent third party trustees.

**Cash** - At September 30, 2015, the carrying amount of the District's deposits was \$133,424 and the bank balance was \$143,351. The bank balance was covered by FDIC insurance.

**Cash Equivalents** -

**Interest Rate Risk** - In accordance with its investment policy, the District manages its exposure to declines in fair values through investment diversification and limiting investments as follows:

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**3. CASH AND CASH EQUIVALENTS (continued) -**

**Credit Risk** - The District's investment policy requires the application of the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, and considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy requires that District funds be invested in:

- Obligations of the United States Government and/or its agencies and instrumentalities; or
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share; or
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; or
- Securities issued by a State or local government or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; or
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

At September 30, 2015, the District held the following cash equivalents:

Investment	Fair Market Value at 9/30/2015	Weighted Average Maturity	Investment Rating	
			Rating	Rating Agency
TexPool	\$ 20,702	1	AAAm	Standard & Poors
	<u>\$ 20,702</u>			

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool ("TexPool"). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at fair value which is the same as the value of the pool shares. TexPool also has an advisory board to advise on TexPool's investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) -**

**Concentration of Credit Risk** - In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2015, the District did not own any investments in individual securities.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2015, the District's bank deposits were fully covered by FDIC insurance.

**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson County Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board set current tax rates on September 10, 2014.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2014 tax roll. The tax rate, based on total taxable assessed valuation of \$20,303,767 was \$0.875 on each \$100 valuation and was allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 7, 2006.

Property taxes receivable at September 30, 2015, consisted of the following:

	General Fund
Current year levy	\$ -
Prior years' levies	-
Rollbacks	815
	\$ 815

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**5. COMMITMENTS AND CONTINGENCIES**

The developer of the land within the District has incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Commission, or from operations. As of September 30, 2015, the District has not issued any bonds and has received \$557,406 of developer advances.

**6. RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from commercial insurance companies to effectively manage its risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

**7. FUND BALANCES**

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Those fund balance classifications are described below.

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation. The District had no such amounts.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015**

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**7. FUND BALANCES (continued) -**

- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The details of the fund balances are included in the Governmental Fund Balance Sheet on page FS-1.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

**8. SUBSEQUENT EVENTS**

In December 2015, the District issued \$3,500,000 of Unlimited Tax Bonds, Series 2015. Proceeds from the bonds will be used to finance construction and other District development costs. The Series 2015 bonds were sold with interest rates ranging from 1.75% to 4.00% and principal maturities through August 2040.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**REUNION RANCH  
WATER CONTROL AND IMPROVEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2015**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance With Original Budget</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 180,683	\$ 174,105	\$ 6,578
Service accounts, including penalties	224,142	139,607	84,535
Connection/inspection fees	81,800	76,950	4,850
Other	64	60	4
<b>TOTAL REVENUES</b>	<u>486,689</u>	<u>390,722</u>	<u>95,967</u>
<b>EXPENDITURES:</b>			
Water monthly charges/purchases	94,372	56,934	(37,438)
Operations	50,305	46,560	(3,745)
Repairs and maintenance	49,386	39,000	(10,386)
Engineering fees	39,319	42,000	2,681
Legal fees	37,468	72,000	34,532
Connections/inspections	32,453	8,550	(23,903)
Water reservation fees	22,139	19,776	(2,363)
Chemicals/lab fees	19,583	12,000	(7,583)
Bookkeeping fees	18,150	18,150	-
Landscape maintenance	12,595	6,000	(6,595)
Utilities	10,296	10,800	504
Insurance	9,538	9,250	(288)
Director fees, including payroll taxes	8,235	9,778	1,543
Audit fees	7,000	10,000	3,000
Sludge hauling	4,588	4,000	(588)
Tax collector/assessor fees	3,294	600	(2,694)
Permit fees	1,415	1,500	85
Other	664	1,200	536
<b>TOTAL EXPENDITURES</b>	<u>420,800</u>	<u>368,098</u>	<u>(52,702)</u>
Excess of revenues over expenditures	<u>65,889</u>	<u>22,624</u>	<u>43,265</u>
<b>OTHER FINANCING SOURCES -</b>			
Advances from developer	<u>70,674</u>	<u>-</u>	<u>70,674</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>70,674</u>	<u>-</u>	<u>70,674</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>136,563</u>	<u>\$ 22,624</u>	<u>\$ 113,939</u>
Beginning of the year	<u>29,059</u>		
End of the year	<u>\$ 165,622</u>		



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**APPENDIX B**

**FORM OF BOND COUNSEL'S OPINION**

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LAW OFFICES

**M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE: 214 754-9200  
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: 512 478-3805  
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: 210 225-2800  
FACSIMILE: 210 225-2984

*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.]*

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BONDS, SERIES 2016  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,700,000**

**AS BOND COUNSEL FOR THE REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on November 15, 2016 authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.

**IT IS FURTHER OUR OPINION** that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations under section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES



**GENERAL AND NO-LITIGATION CERTIFICATE**

**THE STATE OF TEXAS** §  
**COUNTY OF HAYS** §  
**REUNION RANCH WATER CONTROL**  
**AND IMPROVEMENT DISTRICT** §

We, the undersigned President or Vice-President and Secretary or Assistant Secretary, respectively, of the Board of Directors of the District, hereby certify as follows:

**GENERAL**

1. This certificate is executed for and on behalf of the District, for the benefit of the Attorney General of the State of Texas and for the benefit of the Initial Purchaser in connection with the issuance of the Bonds. Unless otherwise provided herein, the capitalized words and terms used in this certificate shall have the meanings whenever they are used given in Exhibit "A" attached hereto.

2. Any certificate signed by an official of the District delivered to the Initial Purchaser or the Attorney General of the State of Texas shall be deemed a representation and warranty by the District as to the statements made therein. The Public Finance Division of the Office of the Attorney General of the State of Texas is hereby authorized to date this certificate as of the date of approval of the Bonds and is entitled to rely upon the accuracy of the information contained herein unless notified by telephone or fax to the contrary. The Comptroller of Public Accounts is further authorized to register the Bonds upon receipt of the Attorney General approval. After registration, the Bonds, opinions and registration papers shall be delivered to Clayton C. Chandler at McCall, Parkhurst & Horton L.L.P.

3. A true and correct copy of the bid for the Bonds submitted to and accepted by Board of Directors of the District is attached hereto as Exhibit "B".

**MATTERS RELATING TO THE DISTRICT**

4. We officially executed and signed the Bonds with our manual signatures or by causing facsimiles of our manual signatures to be imprinted or copied on each of the Bonds, and, if appropriate, we hereby adopt said facsimile signatures as our own, respectively, and declare that the facsimile signatures constitute our signatures the same as if we had manually signed each of the Bonds.

5. The Bonds are substantially in the form, and have been duly executed and signed in the manner prescribed in the Order.

6. At the time we so executed and signed the Bonds we were, and at the time of executing this certificate we are, the duly chosen, qualified and acting officers indicated therein, and authorized to execute the same.

7. No litigation of any nature has been filed or is now pending to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the proceedings or authority concerning the issuance of the Bonds, and that so far as we know and believe no such litigation is threatened.

8. Neither the corporate existence nor boundaries of the District is being contested, no litigation has been filed or is now pending which would affect the authority of the officers of the District to issue, execute, sign, and deliver the Bonds, and no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded.

9. We have caused the official seal of the District to be impressed, printed or copied on the Bonds and said seal on the Bonds has been duly adopted as, and is hereby declared to be, the official seal of the District.

10. The District is a conservation and reclamation district operating and existing as a water control and improvement district under the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51, Texas Water Code, as amended.

11. The Board of Directors of the District is composed of the following persons, each of whom serves in the capacity indicated:

Nathan Neese, President  
Vince Terracina, Vice President  
David Bosco, Jr., Secretary  
George Sykes, Asst. Secretary  
Mike Ehrhardt, Asst. Secretary

12. Each member of the Board of Directors has been duly qualified as a member of the Board of Directors of the District by executing the sworn statement (when required), by executing the bond required by law, and by taking the official oath of office prescribed by the Constitution for public officers; each such bond was duly approved by the Board of Directors of the District; and each such bond, sworn statement and oath are filed and retained in the District's records and with the Secretary of State. All Directors taking or who have taken any action in connection with the authorization, sale, and delivery of the Bonds are or were at the time of such action, duly qualified and acting directors of the District, and all directors executing any documents in connection therewith were duly authorized to execute such documents. The Board members and officers since creation of the District are attached hereto as Exhibit "C".

13. The District has the below outstanding indebtedness payable from ad valorem taxes (the "Outstanding Bonds"):

Unlimited Tax Bonds, Series 2015	\$3,500,000
Unlimited Tax Bonds, Series 2016*	3,700,000

\*The Bonds in the process of issuance

14. A District Information Form and amendments thereto have been filed as required by Section 49.455, Texas Water Code and as of the date of this Certificate, all information required by law to be filed by the District with the Commission has been filed. Based upon our actual knowledge, the District is currently in compliance with all regulations of the Commission.

15. In connection with the election authorizing the Bonds, the District complied with the Voting Rights Act of 1965, as amended, and the Texas Election Code.

16. The currently effective ad valorem tax rolls of the District are those for the year 2016, being the most recently approved tax rolls of the District; the taxable property in the District has been assessed as required by law; the Tax Assessor of the District has duly verified the tax rolls and the assessed value of taxable property in the District upon which the annual ad valorem tax of the District has been levied (after deducting the amount of all exemptions, if any, taken or required to be given under the Constitution and laws of the State of Texas), according to the tax rolls for the year is \$71,026,011.

17. The District lies within the extraterritorial jurisdiction of the City of Dripping Springs and is in compliance with the Comprehensive Development Agreement with the City.

18. The boundaries of the District have not changed since the issuance of the District's Series 2015 Bonds.

19. The District has not limited the taxing powers granted to it by the Constitution and laws of the State of Texas, and no procedure for such action has been taken.

20. The District has not at any time entered into any contract of any nature with the United States or any branch or agency thereof.

21. No motion to overturn the actions of the Commission's executive director approving the issuance of the Bonds has been filed pursuant to Commission Rule 50.139 within 23 days of the date that such approval was mailed to the District. Additionally, the District has not been notified that the Commission or its general counsel has extended the period of time to file such a motion to overturn.

22. The District certifies that there are currently approximately 524 acres within the District.

23. No proceeds from the bonds will be used to purchase firefighting equipment or supplies.

24. Lawfully available funds are hereby appropriated and confirmed to be available to pay the principal and interest coming due on the Bonds on August 15, 2017.

25. The District has received all required disclosure filings under Section 2252.908 of the Texas Government Code in connection with the authorization and issuance of the Bonds and has notified the Texas Ethics Commission ("TEC") of its receipt of such filings by acknowledging such filing in accordance with TEC's rules.

### **CLOSING MATTERS**

26. To our best knowledge and belief:

(a) the descriptions and statements of or pertaining to the District contained in its Official Notice of Sale, Bid Form and Preliminary Official Statement dated November 5, 2015 and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Preliminary Official Statement, on the date of sale of the Bonds, and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects;

(b) insofar as the District and its affairs, including its financial affairs, are concerned, such Preliminary Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the District and their activities contained in such Preliminary Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein made in light of the circumstances under which they are made not misleading; and

(d) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statement of the District appearing in the Preliminary Official Statement.

SIGNED this the 22<sup>nd</sup> day of December

Secretary, Board of Directors

President, Board of Directors

**NOTARY ACKNOWLEDGMENT**

Before me, on this day personally appeared the foregoing individuals, known to me to be the officers whose true and genuine signatures were subscribed to the foregoing instrument in my presence.

Given under my hand and seal of office this November 15, 2014.

Notary Public

(Notary)



Signature Page

## EXHIBIT A

<i>Bonds</i>	Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 dated November 15, 2016 in the aggregate principal amount of \$3,700,000.
<i>City</i>	The City of Dripping Springs, Texas.
<i>Commission</i>	Texas Commission on Environmental Quality.
<i>District</i>	Reunion Ranch Water Control and Improvement District.
<i>Initial Purchaser</i>	The winning bidder as shown on the Winning Bid Form attached to this General and No-Litigation Certificate as <u>Exhibit "B"</u> .
<i>Order</i>	The order adopted by the Board of Directors of the District on November 15, 2016 authorizing the issuance of the Bonds.

**EXHIBIT B**  
**WINNING BID FORM**

**OFFICIAL BID FORM**

President and Board of Directors  
 Reunion Ranch Water Control and Improvement District  
 c/o Specialized Public Finance Inc.  
 248 Addie Roy Road, Suite B-103  
 Austin, Texas 78746

Board of Directors:

We have read in detail your Official Notice of Sale and accompanying Preliminary Official Statement dated November 1, 2016, relating to the Reunion Ranch Water Control and Improvement District (the "District") and its \$3,700,000 Unlimited Tax Bonds, Series 2016 (the "Bonds"), as made a part hereof. We realize that the Bonds involve certain risk factors, and we have made inspections and investigations as we deem necessary relating to the District and to the investment quality of the Bonds.

For your legally issued Bonds, in the aggregate principal amount of \$3,700,000, we will pay you a price of \$3,589,000, representing approximately 97.000 % of the par value. Such Bonds mature August 15, in each of the years and in the amounts and interest rates shown below:

Maturity (August 15)	Principal Amount	Interest Rate	Maturity (August 15)	Principal Amount	Interest Rate
2018	\$ 90,000	<u>3.000%</u>	2030	\$ 155,000	<u>3.750%</u>
2019	95,000	<u>3.000%</u>	2031	160,000	<u>3.750%</u>
2020	95,000	<u>3.000%</u>	2032	170,000	<u>4.000%</u>
2021	100,000	<u>3.000%</u>	2033	175,000	<u>4.000%</u>
2022	105,000	<u>3.000%</u>	2034	185,000	<u>4.000%</u>
2023	110,000	<u>3.000%</u>	2035	190,000	<u>4.125%</u>
2024	115,000	<u>3.000%</u>	2036	195,000	<u>4.125%</u>
2025	125,000	<u>3.125%</u>	2037	200,000	<u>4.125%</u>
2026	130,000	<u>3.375%</u>	2038	205,000	<u>4.250%</u>
2027	135,000	<u>3.500%</u>	2039	210,000	<u>4.250%</u>
2028	140,000	<u>3.500%</u>	2040	215,000	<u>4.250%</u>
2029	145,000	<u>3.625%</u>	2041	255,000	<u>4.250%</u>

Of the principal maturities set forth in the table above, we have created term bonds as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

Term Bonds Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
<u>2037</u>	<u>2035</u>	<u>\$ 585,000</u>	<u>4.125%</u>
<u>2041</u>	<u>2038</u>	<u>\$ 885,000</u>	<u>4.250%</u>
		\$	%
		\$	%
		\$	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TOTAL INTEREST COST FROM 12/22/2016	<u>\$ 2,221,569.81</u>
PLUS DOLLAR AMOUNT OF DISCOUNT	<u>\$ 111,000.00</u>
NET INTEREST COST	<u>\$ 2,332,569.81</u>
NET EFFECTIVE INTEREST RATE	<u>4.164208%</u>



A wire transfer or a cashiers or certified check to the District in the amount of \$74,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the District as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

We understand the sale of the Bonds has not been registered under the United States 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; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. We hereby represent the sale of the Bonds in jurisdictions other than Texas will be made only pursuant to exemptions from registration or qualification and that where necessary, we will register or qualify the Bonds in accordance with the securities laws and regulations of the jurisdiction in which the Bonds are offered or sold.

We further understand that the District assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement or other information concerning the District and the Bonds to anyone other than to us.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

RBC Capital Markets

Name of Initial Purchaser or Manager

Heather Davis

Authorized Representative

713-651-3344

Phone Number

Heather Davis

Signature

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Please check one of the options below regarding Good Faith Deposit:**

Submit by Wire Transfer

Submit by Bank Cashier's/Certified Check

**ACCEPTANCE CLAUSE**

The above and foregoing bid is hereby in all things accepted by Reunion Ranch Water Control and Improvement District this the 15<sup>th</sup> day of November, 2016.

ATTEST:

[Signature]  
Secretary

Board of Directors  
Reunion Ranch Water Control and Improvement District

[Signature]  
President

Board of Directors  
Reunion Ranch Water Control and Improvement District

## EXHIBIT C

### BOARD MEMBERS AND OFFICERS SINCE CREATION OF DISTRICT

#### **November 11, 2005 – March 10, 2006**

Danny Krause, President  
Jim Boles, Vice President  
Bill Peckman, Secretary  
Dick Rathberger, Asst. Secretary  
David Baggett, Asst. Secretary

#### **March 10, 2006 – November 16, 2006**

Vince Terracina, President  
Michael Lindley, Vice President  
George Sykes, Secretary  
Dick Rathberger, Asst. Secretary

#### **November 16, 2006 – December 18, 2006**

Vince Terracina, President  
Micheal Lindley, Vice President  
George Sykes, Secretary  
Carl Williams, Asst. Secretary  
Dick Rathberger, Asst. Secretary

#### **December 18, 2006 – February 8, 2009**

Vince Terracina, President  
Michael Lindley, Vice President  
George Sykes, Secretary  
Carl Williams, Asst. Secretary  
Pat Herron, Asst. Secretary

#### **February 8, 2009 – April 25, 2012**

Vince Terracina, President  
Michael Lindley, Vice President  
George Sykes, Secretary  
Carol Williams, Asst. Secretary  
Joseph Kozusko, Asst. Secretary

#### **April 25, 2012 – October 23, 2013**

Todd Janssen, President  
Vincent Terracina, Vice President  
David Bosco, Secretary  
Nathan Neese, Asst. Secretary  
George Sykes, Asst. Secretary

**October 23, 2013 – July 24, 2016**

Nathan Neese, President  
Vince Terracina, Vice President  
David Bosco, Jr., Secretary  
George Sykes, Asst. Secretary  
Joel DeSpain, Asst. Secretary

**July 25, 2016 – Present**

Nathan Neese, President  
Vince Terracina, Vice President  
David Bosco, Jr., Secretary  
George Sykes, Asst. Secretary  
Mike Ehrhardt, Asst. Secretary

## FEDERAL TAX CERTIFICATE

### 1. In General.

1.1. The undersigned is the President of the Board of Directors of the Reunion Ranch Water Control and Improvement District (the "Issuer").

1.2. This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Issuer's Unlimited Tax Bonds, Series 2016 (the "Bonds"). The Bonds are being issued pursuant to an Order of the Issuer, duly adopted by the Issuer (the "Order"). The Order is incorporated herein by reference.

1.3. To the best of the undersigned's knowledge, information and belief, the expectations contained in this Federal Tax Certificate are reasonable.

1.4. The undersigned is an officer of the Issuer delegated with the responsibility of issuing and delivering the Bonds.

1.5. The undersigned is not aware of any facts or circumstances that would cause him to question the accuracy of the representations made by RBC Capital Markets, LLC (the "Purchaser") in the Issue Price Certificate attached hereto as Exhibit "D", and by Specialized Public Finance Inc. (the "Financial Advisor") in Subsection 4.3 of this Certificate and with respect to the Schedules attached hereto as Exhibit "E".

### 2. The Purpose of the Bonds and Useful Lives of Projects.

2.1. The Bonds are being issued pursuant to the Order (a) to provide for the payment of costs of issuing the Bonds, and (b) for the purposes of financing the Issuer's share of the construction costs associated with a wastewater treatment plant in Reunion Ranch Phase 1A and water, wastewater and drainage facilities to serve single-family and common area development in Reunion Ranch Phase 1B and 1C (the "Projects").

2.2. The Issuer expects that the aggregate useful lives of the Projects exceed 28 years from the later of the date the Projects are placed in service or the date on which the Bonds are issued.

2.3. All earnings, such as interest and dividends, received from the investment of the proceeds of the Bonds during the period of acquisition and construction of the Projects and not used to pay interest on the Bonds, will be used to pay the costs of the Projects, unless required to be rebated and paid to the United States in accordance with section 148(f) of the Internal Revenue Code of 1986 (the "Code"). The proceeds of the Bonds, together with any investment earnings thereon, are expected not to exceed the amount necessary for the governmental purpose of the Bonds. The Issuer expects that no disposition proceeds will arise in connection with the Projects or the Bonds.

### 3. Expenditure of Bond Proceeds and Use of Projects.

3.1. The Issuer will incur, within six months after the date of issue of the Bonds, a binding obligation to commence the Projects, either by entering into contracts for the construction of the Projects or by entering into contracts for architectural or engineering services for such Projects, or contracts for the development, purchase of construction materials, or purchase of equipment, for the Projects, with the amount

to be paid under such contracts to be in excess of five percent of the proceeds which are estimated to be used for the cost of the Projects.

3.2. After entering into binding obligations, work on such Projects will proceed promptly with due diligence to completion.

3.3. All original proceeds derived from the sale of the Bonds to be applied to the Projects and all investment earnings thereon (other than any amounts required to be rebated to the United States pursuant to section 148(f) of the Code) will be expended for the Projects no later than a date which is three years after the date of issue of the Bonds.

3.4. The Order provides that allocations of proceeds to expenditures for the Projects are expected not to be later than 18 months after the later of the date of the expenditure or the date that the Projects are placed in service, but, in any event, not longer than 60 days after the earlier of five years of the date hereof or the date the Bonds are retired.

3.5. Only Project costs paid or incurred by the Issuer on or after 60 days prior to the date the Issuer approved the funding of the Project (the "60-day period") through its declaration of official intent ("Qualified Costs") will be paid or reimbursed with Bond proceeds. For this purpose Qualified Costs also include preliminary expenditures, incurred prior to the 60-day period before the approval of the Issuer through its declaration of official intent, up to an amount not in excess of 20 percent of the aggregate amount of the Bonds. No Qualified Cost represents the cost of property or land acquired from a related party.

3.6. The Issuer will not invest the proceeds prior to such expenditure in any guaranteed investment contract or other non-purpose investment with a substantially guaranteed yield for a period equal to or greater than four years.

3.7. Other than members of the general public, the Issuer expects that throughout the lesser of the term of the Bonds, or the useful lives of the Projects, the only user of the Projects will be the Issuer or the Issuer's employees and agents, except as described in this Section 3.7. The Issuer has contracted Severn Trent Environmental Services, Inc. to be the manager of the Projects pursuant to a contract which complies with Rev. Proc. 97-13, 1997-1 C.B. 632, as amended and supplemented by Rev. Proc. 2016-44 I.R.B. 2016-36. The Issuer does not expect to enter into long-term sales of output from the Projects and sales of output will be made on the basis of generally-applicable and uniformly applied rates. The Issuer may apply different rates for different classes of customers, including volume purchasers, which are reasonable and customary.

3.8. Except as stated below, the Issuer expects not to sell or otherwise dispose of property constituting the Projects prior to the earlier of the end of such property's useful life or the final maturity of the Bonds. The Order provides that the Issuer will not sell or otherwise dispose of the Projects unless the Issuer receives an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds.

3.9. For purposes of Subsection 3.8 hereof, the Issuer has not included the portion of the Projects comprised of personal property that is disposed in the ordinary course at a price that is expected to be less than 25 percent of the original purchase price. The Issuer, upon any disposition of such property, will transfer the receipts from the disposition of such property to the general operating fund and expend such receipts within six months for other governmental programs.

4. Debt Service Fund.

4.1. The Order creates a Debt Service Fund. Other than as described herein, money deposited in the Debt Service Fund will be used to pay the principal of and interest on the Bonds (the "Bona Fide Debt Service Portion"). The Bona Fide Debt Service Portion constitutes a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Such portion will be completely depleted at least once each year except for an amount not in excess of the greater of (a) one-twelfth of the debt service on the Bonds for the previous year, or (b) the previous year's earnings on such portion of the Debt Service Fund. Amounts deposited in the Debt Service Fund constituting the Bona Fide Debt Service Portion will be spent within a thirteen-month period beginning on the date of deposit, and any amount received from the investment of money held in the Debt Service Fund will be spent within a one-year period beginning on the date of receipt.

4.2. A portion of the funds on deposit in the Debt Service Fund, not otherwise used to pay debt service on the Bonds within thirteen months, will be held in trust for the benefit of the holders of the Bonds (the "Reserve Portion"). If on any interest payment or maturity date, sufficient amounts are not available to make debt service payments on the Bonds, the Issuer is required to use such money constituting the Reserve Portion in an amount sufficient to make such payments. The present value of the investments deposited to the Reserve Portion of the Debt Service Fund and allocable to the Bonds that will be invested at a yield higher than the yield on the Bonds will not, as of any date, exceed an aggregate amount which equals the lesser of (a) 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Bonds, (b) 1.25 of the average annual debt service on the Bonds, or (c) maximum annual debt service on the Bonds.

4.3. Based on advice to the Issuer by its financial advisors, the amount on deposit in the Reserve Portion of the Debt Service Fund should be maintained as a balance allocable to the Bonds in the Debt Service Fund consistent with accepted standards of prudent fiscal management for similar governmental bodies and in order to provide a reserve against periodic fluctuations in the amount and timing of payment of ad valorem taxes to the Issuer.

4.4. Any money deposited in the Debt Service Fund and any amounts received from the investment thereof that accumulate and remain on hand therein after thirteen months from the date of deposit of any such money or one year after the receipt of any such amounts from the investment thereof shall constitute a third and separate portion of the Debt Service Fund. The yield on any investments allocable to the portion of the Debt Service Fund exceeding of the sum of (a) the Bona Fide Debt Service Portion, (b) the Reserve Portion and (c) an amount equal to the lesser of five percent of the sale and investment proceeds of the Bonds or \$100,000 will be restricted to a yield that does not exceed the yield on the Bonds.

5. Yield.

5.1. The issue price of the Bonds included in the Form 8038-G is based on the Issue Price Certificate attached hereto.

5.2. The Issuer has not entered into any qualified guarantee or qualified hedge with respect to the Bonds. The yield on the Bonds will not be affected by subsequent unexpected events, except to the extent provided in section 1.148-4(h)(3) of the Treasury Regulations when and if the Issuer enters into a qualified hedge or into any transaction transferring, waiving or modifying any right that is part of the terms of any Bond. The Issuer will consult with nationally recognized bond counsel prior to entering into any of the foregoing transactions.

6. Operating Fund.

6.1. The Order creates an Operating Fund into which certain revenues of the Issuer are deposited. Amounts on deposit in the Operating Fund are transferred and used in the manner required by the Order.

6.2. Other than moneys in the Operating Fund that are transferred to the Debt Service Fund, the moneys in the Operating Fund are reasonably expected not to be used to pay the principal of and interest on the Bonds. There will be no assurance that such moneys will be available to meet debt service if the Issuer encounters financial difficulty. Amounts in the Operating Fund will be invested without yield restriction.

7. Invested Sinking Fund Proceeds, Replacement Proceeds.

7.1. The Issuer has, in addition to the moneys received from the sale of the Bonds, certain other moneys that are invested in various funds which are pledged for various purposes. These other funds are not available to accomplish the purposes described in Section 2 of this Certificate.

7.2. Other than the Debt Service Fund, there are, and will be, no other funds or accounts established, or to be established, by or on behalf of the Issuer (a) which are reasonably expected to be used, or to generate earnings to be used, to pay debt service on the Bonds, or (b) which are reserved or pledged as collateral for payment of debt service on the Bonds and for which there is reasonable assurance that amounts therein will be available to pay such debt service if the Issuer encounters financial difficulties. Accordingly, there are no other amounts constituting "gross proceeds" of the Bonds, within the meaning of section 148 of the Code.

8. Other Obligations.

8.1. There are no other obligations of the Issuer that (a) are sold at substantially the same time as the Bonds, i.e., within 15 days of the date of sale of the Bonds, (b) are sold pursuant to a common plan of financing with the Bonds, and (c) will be payable from the same source of funds as the Bonds.

8.2. The Issuer (including any of its related entities) has not issued nor does it expect to issue any other tax-exempt obligations during the current calendar year, including certain lease purchase agreements, in an amount which when aggregated with the Bonds would exceed \$10,000,000, within the meaning of section 265(b) of the Code.

9. Federal Tax Audit Responsibilities.

The Issuer acknowledges that in the event of an examination by the Internal Revenue Service (the "Service") to determine compliance of the Bonds with the provisions of the Code as they relate to tax-exempt obligations, the Issuer will respond, and will direct its agents and assigns to respond, in a commercially reasonable manner to any inquiries from the Service in connection with such an examination. The Issuer understands and agrees that the examination may be subject to public disclosure under applicable Texas law. The Issuer acknowledges that this Certificate, including any attachments, does not constitute an opinion of Bond Counsel as to the proper federal tax or accounting treatment of any specific transaction.

10. Record Retention and Private Business Use.

The Issuer has covenanted in the Order that it will comply with the requirements of the Code relating to the exclusion of the interest on the Bonds under section 103 of the Code. The Service has determined that

certain materials, records and information should be retained by the issuers of tax-exempt obligations for the purpose of enabling the Service to confirm the exclusion of the interest on such obligations under section 103 of the Code. **ACCORDINGLY, THE ISSUER SHALL TAKE STEPS TO ENSURE THAT ALL MATERIALS, RECORDS AND INFORMATION NECESSARY TO CONFIRM THE EXCLUSION OF THE INTEREST ON THE BONDS UNDER SECTION 103 OF THE CODE ARE RETAINED FOR THE PERIOD BEGINNING ON THE ISSUE DATE OF THE BONDS AND ENDING THREE YEARS AFTER THE DATE THE BONDS ARE RETIRED.** The Issuer acknowledges receipt of the letters attached hereto as Exhibit "B" which discusses limitations related to private business use and Exhibit "C" which, in part, discusses specific guidance by the Service with respect to the retention of records relating to tax-exempt bond transactions.

11. Rebate to United States.

The Issuer has covenanted in the Order that it will comply with the requirements of the Code, including section 148(f) of the Code, relating to the required rebate to the United States. Specifically, the Issuer will take steps to ensure that all earnings on gross proceeds of the Bonds in excess of the yield on the Bonds required to be rebated to the United States will be timely paid to the United States. The Issuer acknowledges receipt of the memorandum attached hereto as Exhibit "A" which discusses regulations promulgated pursuant to section 148(f) of the Code.

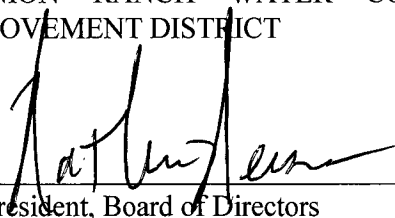
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DATED as of December 22, 2016.

REUNION RANCH WATER CONTROL AND  
IMPROVEMENT DISTRICT

By: \_\_\_\_\_

  
President, Board of Directors

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Subsection 4.3 of this Federal Tax Certificate and the Schedules attached hereto as Exhibit "E" are, as of December 22, 2016, accurate and complete. We understand that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in this Federal Tax Certificate and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the Issuer that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

SPECIALIZED PUBLIC FINANCE INC.

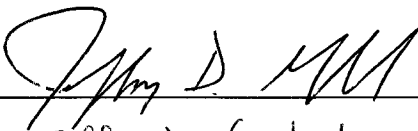
By:   
Name: Jeffrey D. Garland  
Title: Managing Director

Exhibit "A"

November 1, 2016

**ARBITRAGE REBATE REGULATIONS**<sup>®</sup>

The arbitrage rebate requirements set forth in section 148(f) of the Internal Revenue Code of 1986 (the "Code") generally provide that in order for interest on any issue of bonds<sup>1</sup> to be excluded from gross income (i.e., tax-exempt) the issuer must rebate to the United States the sum of, (1) the excess of the amount earned on all "nonpurpose investments" acquired with "gross proceeds" of the issue over the amount which would have been earned if such investments had been invested at a yield equal to the yield on the issue, and (2) the earnings on such excess earnings.

On June 18, 1993, the U.S. Treasury Department promulgated regulations relating to the computation of arbitrage rebate and the rebate exceptions. These regulations, which replace the previously-published regulations promulgated on May 15, 1989, and on May 18, 1992, are effective for bonds issued after June 30, 1993, have been amended. This memorandum was prepared by McCall, Parkhurst & Horton L.L.P. and provides a general discussion of these arbitrage rebate regulations, as amended. This memorandum does not otherwise discuss the general arbitrage regulations, other than as they may incidentally relate to rebate. This memorandum also does not attempt to provide an exhaustive discussion of the arbitrage rebate regulations and should not be considered advice with respect to the arbitrage rebate requirements as applied to any individual or governmental unit or any specific transaction. Any tax advice contained in this memorandum is of a general nature and is not intended to be used, and should not be used, by any person to avoid penalties under the Code.

McCall, Parkhurst & Horton L.L.P. remains available to provide legal advice to issuers with respect to the provisions of these tax regulations but recommends that issuers seek competent financial and accounting assistance in calculating the amount of such issuer's rebate liability under section 148(f) of the Code and in making elections to apply the rebate exceptions.

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<sup>1</sup> In this memorandum the word "bond" is defined to include any bond, note, certificate, financing lease or other obligation of an issuer.

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600 Congress Ave., Suite 1800  
Austin, Texas 78701  
T 512 478 3805  
F 512.472.087

717 North Harwood, Suite 900  
Dallas, Texas 75201  
T 214 754 9200  
F 214 754.9250

700 N. St. Mary's Street, Suite 1525  
San Antonio, Texas 78205  
T 210.225 2800  
F 210.225.2984

[www.mphlegal.com](http://www.mphlegal.com)



## Effective Dates

The regulations promulgated on June 18, 1993, generally apply to bonds delivered after June 30, 1993, although they do permit an issuer to elect to apply the rules to bonds issued prior to that date. The temporary regulations adopted by the U.S. Treasury Department in 1989 and 1992 incorporated the same effective dates which generally apply for purposes of section 148(f) of the Code. As such, the previous versions of the rebate regulations generally applied to bonds issued between August 1986 and June 30, 1993 (or, with an election, to bonds issued prior to August 15, 1993). The statutory provisions of section 148(f) of the Code, other than the exception for construction issues, apply to all bonds issued after August 15, 1986, (for private activity bonds) and August 31, 1986, (for governmental public purpose bonds). The statutory exception to rebate applicable for construction issues generally applies if such issue is delivered after December 19, 1989.

The regulations provide numerous transitional rules for bonds sold prior to July 1, 1993. Moreover, since, under prior law, rules were previously published with respect to industrial development bonds and mortgage revenue bonds, the transitional rules contained in these regulations permit an issuer to elect to apply certain of these rules for computing rebate on pre-1986 bonds. The regulations provide for numerous elections which would permit an issuer to apply the rules (other than 18-month spending exception) to bonds which were issued prior to July 1, 1993 and remain outstanding on June 30, 1993. Due to the complexity of the regulations, it is impossible to discuss in this memorandum all circumstances for which specific elections are provided. If an issuer prefers to use these final version of rebate regulations in lieu of the computational method stated under prior law (e.g., due to prior redemption) or the regulations, please contact McCall, Parkhurst & Horton L.L.P. for advice as to the availability of such options.

## Future Value Computation Method

The regulations employ an actuarial method for computing the rebate amount based on the future value of the investment receipts (i.e., earnings) and payments. The rebate method employs a two-step computation to determine the amount of the rebate payment. First, the issuer determines the bond yield. Second, the issuer determines the arbitrage rebate amount. The regulations require that the computations be made at the end of each five-year period and upon final maturity of the issue (the "computation dates"). **THE FINAL MATURITY DATE WILL ACCELERATE IN CIRCUMSTANCES IN WHICH THE BONDS ARE OPTIONALLY REDEEMED PRIOR TO MATURITY. AS SUCH, IF BONDS ARE REFUNDED OR OTHERWISE REDEEMED, THE REBATE MAY BE DUE EARLIER THAN INITIALLY PROJECTED.** In order to accommodate accurate record-keeping and to assure that sufficient amounts will be available for the payment of arbitrage rebate liability, however, we recommend that the computations be performed at least annually. Please refer to other materials provided by McCall, Parkhurst & Horton L.L.P. relating to federal tax rules regarding record retention.

Under the future value method, the amount of rebate is determined by compounding the aggregate earnings on all the investments from the date of receipt by the issuer to the

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computation date. Similarly, a payment for an investment is future valued from the date that the payment is made to the computation date. The receipts and payments are future valued at a discount rate equal to the yield on the bonds. The rebatable arbitrage, as of any computation date, is equal to the excess of the (1) future value of all receipts from investments (i.e., earnings), over (2) the future value of all payments.

The following example is provided in the regulations to illustrate how arbitrage rebate is computed under the future value method for a fixed-yield bond:

"On January 1, 1994, City A issues a fixed yield issue and invests all the sale proceeds of the issue (\$49 million). There are no other gross proceeds. The issue has a yield of 7.0000 percent per year compounded semiannually (computed on a 30 day month/360 day year basis). City A receives amounts from the investment and immediately expends them for the governmental purpose of the issue as follows:

<u>Date</u>	<u>Amount</u>
2/1/1994	\$ 3,000,000
4/1/1994	5,000,000
6/1/1994	14,000,000
9/1/1994	20,000,000
7/1/1995	10,000,000

City A selects a bond year ending on January 1, and thus the first required computation date is January 1, 1999. The rebate amount as of this date is computed by determining the future value of the receipts and the payments for the investment. The compounding interval is each 6-month (or shorter) period and the 30 day month/360 day year basis is used because these conventions were used to compute yield on the issue. The future value of these amounts, plus the computation credit, as of January 1, 1999, is:

<u>Date</u>	<u>Receipts (Payments)</u>	<u>FY (7.0000 percent)</u>
1/1/1994	(\$49,000,000)	(\$69,119,339)
2/1/1994	3,000,000	4,207,602
4/1/1994	5,000,000	6,932,715
6/1/1994	14,000,000	19,190,277
9/1/1994	20,000,000	26,947,162
1/1/1995	(1,000)	(1,317)
7/1/1995	10,000,000	12,722,793
1/1/1996	(1,000)	<u>(1,229)</u>
	Rebate amount (01/01/1999)	<u><u>\$878,664"</u></u>



## General Method for Computing Yield on Bonds

In general, the term "yield," with respect to a bond, means the discount rate that when used in computing the present value of all unconditionally due payments of principal and interest and all of the payments for a qualified guarantee produces an amount equal to the issue price of the bond. The term "issue price" has the same meaning as provided in sections 1273 and 1274 of the Code. That is, if bonds are publicly offered (i.e., sold by the issuer to a bond house, broker or similar person acting in the capacity of underwriter or wholesaler), the issue price of each bond is determined on the basis of the initial offering price to the public (not to the aforementioned intermediaries) at which price a substantial amount of such bond was sold to the public (not to the aforementioned intermediaries). The "issue price" is separately determined for each bond (i.e., maturity) comprising an issue.

The regulations also provide varying periods for computing yield on the bonds depending on the method by which the interest payment is determined. Thus, for example, yield on an issue of bonds sold with variable interest rates (i.e., interest rates which are reset periodically based on changes in market) is computed separately for each computation period ending at least on each five-year anniversary of the delivery date that the issue. In effect, yield on a variable yield issue is determined on each computation date by "looking back" at the interest payments for such period.

Yield on a fixed interest rate issue (i.e., an issue of bonds the interest rate on which is determined as of the date of the issue) is computed over the entire term of the issue. Issuers of fixed-yield issues generally use the yield computed as of the date of issue for all rebate computations. The yield on fixed-yield issues must be computed by assuming retirements of principal on a call date earlier than the stated maturity date of a bond if (1) the bond is sold at a substantial premium, it may be retired within five years of the date of delivery, and such date is earlier than its scheduled maturity date, or (2) the issue is a stepped-coupon bond. Similarly, recomputation may occur in circumstances in which the issuer or bondholder modify or waive certain terms of, or rights with respect to, the issue or in sophisticated hedging transactions. **IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.**

For purposes of determining the principal or redemption payments on a bond, different rules are used for fixed-rate and variable-rate bonds. The payment is computed separately on each maturity of bonds rather than on the issue as a whole. In certain circumstances, the yield on the bond is determined by assuming that principal on the bond is paid as scheduled and that the bond is retired on the final maturity date for the stated retirement price. For bonds subject to early redemption or stepped-coupon bonds, described above, or for bonds subject to mandatory early redemption, the yield is computed assuming the bonds are paid on the early redemption date for an amount equal to their value.

Premiums paid to guarantee the payment of debt service on bonds are taken into account in computing the yield on the bond. Payments for guarantees are taken into account by treating such premiums as the payment of interest on the bonds. This treatment, in effect, raises the yield on the bond, thereby permitting the issuer to recover such fee with excess earnings.

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The guarantee must be an unconditional obligation of the guarantor enforceable by the bondholder for the payment of principal or interest on the bond or the tender price of a tender bond. The guarantee may be in the form of an insurance policy, surety bond, irrevocable letter or line of credit, or standby purchase agreement. Importantly, the guarantor must be legally entitled to full reimbursement for any payment made on the guarantee either immediately or upon commercially reasonable repayment terms. The guarantor may not be a co-obligor of the bonds or a user of more than 10 percent of the proceeds of the bonds.

Payments for the guarantee may not exceed a reasonable charge for the transfer of credit risk. This reasonable charge requirement is not satisfied unless it is reasonably expected that the guarantee will result in a net present value savings on the bond (i.e., the premium does not exceed the present value of the interest savings resulting by virtue of the guarantee). If the guarantee is entered into after June 14, 1989, then any fees charged for the nonguarantee services must be separately stated or the guarantee fee is not recoverable.

The regulations also treat certain "hedging" transactions in a manner similar to qualified guarantees. "Hedges" are contracts, e.g., interest rate swaps, futures contracts or options, which are intended to reduce the risk of interest rate fluctuations. Hedges and other financial derivatives are sophisticated and ever-evolving financial products with which a memorandum, such as this, cannot readily deal. **IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.**

## **Earnings on Nonpurpose Investments**

The arbitrage rebate provisions apply only to the receipts from the investment of "gross proceeds" in "nonpurpose investments." For this purpose, nonpurpose investments are stock, bonds or other obligations acquired with the gross proceeds of the bonds for the period prior to the expenditure of the gross proceeds for the ultimate purpose. For example, investments deposited to construction funds, reserve funds (including surplus taxes or revenues deposited to sinking funds) or other similar funds are nonpurpose investments. Such investments include only those which are acquired with "gross proceeds." For this purpose, the term "gross proceeds" includes original proceeds received from the sale of the bonds, investment earnings from the investment of such original proceeds, amounts pledged to the payment of debt service on the bonds or amounts actually used to pay debt service on the bonds. The regulations do not provide a sufficient amount of guidance to include an exhaustive list of "gross proceeds" for this purpose; however, it can be assumed that "gross proceeds" represent all amounts received from the sale of bonds, amounts earned as a result of such sale or amounts (including taxes and revenues) which are used to pay, or secure the payment of, debt service for the bonds. The total amount of "gross proceeds" allocated to a bond generally cannot exceed the outstanding principal amount of the bonds.



The regulations provide that an investment is allocated to an issue for the period (1) that begins on the date gross proceeds are used to acquire the investment, and (2) that ends on the date such investment ceases to be allocated to the issue. In general, proceeds are allocated to a bond issue until expended for the ultimate purpose for which the bond was issued or for which such proceeds are received (e.g., construction of a bond-financed facility or payment of debt service on the bonds). Deposit of gross proceeds to the general fund of the issuer (or other fund in which they are commingled with revenues or taxes) does not eliminate or ameliorate the Issuer's obligation to compute rebate in most cases. As such, proceeds commingled with the general revenues of the issuer are not "freed-up" from the rebate obligation. An exception to this commingling limitation for bonds, other than private activity bonds, permits "investment earnings" (but not sale proceeds or other types of gross proceeds) to be considered spent when deposited to a commingled fund if those amounts are reasonably expected to be spent within six months. Other than for these amounts, issuers may consider segregating investments in order to more easily compute the amount of such arbitrage earnings by not having to allocate investments.

Special rules are provided for purposes of advance refundings. These rules are too complex to discuss in this memorandum. Essentially, the rules relating to refundings, however, do not require that amounts deposited to the escrow fund to defease the prior obligations of the issuer be subject to arbitrage rebate to the extent that the investments deposited to the escrow fund do not have a yield in excess of the yield on the bonds. Any loss resulting from the investment of proceeds in an escrow fund below the yield on the bonds, however, may be recovered by combining those investments with investments deposited to other funds, e.g., reserve or construction funds.

The arbitrage regulations also provide an exception to the arbitrage limitations for the investment of bond proceeds in tax-exempt obligations. As such, investment of proceeds in tax exempt bonds eliminates the Issuer's rebate obligation. A caveat; this exception does not apply to gross proceeds derived allocable to a bond, which is not subject to the alternative minimum tax under section 57(a)(5) of the Code, if invested in tax-exempt bonds subject to the alternative minimum tax, i.e., "private activity bonds." Such "AMT-subject" investment is treated as a taxable investment and must comply with the arbitrage rules, including rebate. Earnings from these tax-exempt investments are subject to arbitrage restrictions, including rebate.

Similarly, the investment of gross proceeds in certain tax-exempt mutual funds are treated as a direct investment in the tax-exempt obligations deposited in such fund. While issuers may invest in such funds for purposes of avoiding arbitrage rebate, they should be aware that if "private activity bonds" are included in the fund then a portion of the earnings will be subject to arbitrage rebate. Issuers should be prudent in assuring that the funds do not contain private activity bonds.

The arbitrage regulations provide a number of instances in which earnings will be imputed to nonpurpose investments. Receipts generally will be imputed to investments that do not bear interest at an arm's-length (i.e., market) interest rate. As such, the regulations adopt a "market price" rule. In effect, this rule prohibits an issuer from investing bond proceeds in investments at a price which is higher than the market price of comparable obligations, in order to reduce the yield. Special rules are included for determining the market price for investment contracts, certificates of deposit and certain U.S. Treasury



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obligations. For example, to establish the fair market value of investment contracts a bidding process between three qualified bidders must be used. The fair market value of certificates of deposit which bear a fixed interest rate and are subject to an early withdrawal penalty is its purchase price if that price is not less than the yield on comparable U.S. Treasury obligations and is the highest yield available from the institution. In any event, a basic "common sense" rule-of-thumb that can be used to determine whether a fair market value has been paid is to ask whether the general funds of the issuer would be invested at the same yield or at a higher yield. An exception to this market price rule is available for United States Treasury Obligations - State or Local Government Series in which case the purchase price is always the market price.

## **Reimbursement and Working Capital**

The regulations provide rules for purposes of determining whether gross proceeds are used for working capital and, if so, at what times those proceeds are considered spent. In general, issuers can finance short-term or long-term working capital with tax-exempt bonds. . By adopting a "proceeds-spent-last" rule, the regulations also generally require that an issuer actually incur a deficit (i.e., expenditures must exceed receipts) for the computation period (which generally corresponds to the issuer's fiscal year in the case of short-term working capital financing). Also, the regulations permit an operating reserve, but unlike prior regulations the amount of such reserve may not exceed five percent of the issuer's actual working capital expenditures for the prior fiscal year. A change was made to the regulations in 2016 allows issuers to finance the operating reserve with proceeds of a tax-exempt obligation. The regulations generally continue the prior regulations' 13-month temporary period for short-term working capital financing.

Long-term working capital financings are beyond the scope of this memorandum. In the event long-term working capital financing is needed, issuers are advised to consult Mccall, Parkhurst & Horton L.L.P. to address the federal income tax consequences of these transactions.

Importantly, the regulations contain rules for determining whether proceeds used to reimburse an issuer for costs paid prior to the date of issue of the obligation, in fact, are considered spent at the time of reimbursement. These rules apply to an issuer who uses general revenues for the payment of all or a portion of the costs of a project then uses the proceeds of the bonds to reimburse those general revenues. Failure to comply with these rules would result in the proceeds continuing to be subject to federal income tax restrictions, including rebate.

To qualify for reimbursement, a cost must be described in an expression (e.g., resolution, legislative authorization) evidencing the issuer's intent to reimburse which is made no later than 60 days after the payment of the cost. Reimbursement must occur no later than 18 months after the later of (1) the date the cost is paid or (2) the date the project is placed in service. Except for projects requiring an extended construction period or small issuers, in no event can a cost be reimbursed more than three years after the cost is paid.

Reimbursement generally is not permitted for working capital; only capital costs, grants and loans may be reimbursed. Moreover, certain anti-abuse rules apply to prevent issuers from avoiding the limitations on refundings. IN CASES INVOLVING WORKING



CAPITAL OR REIMBURSEMENT, ISSUERS ARE ADVISED TO CONTACT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION.

### **Rebate Payments**

Rebate payments generally are due 60 days after each installment computation date. The interim computation dates occur each fifth anniversary of the issue date. The final computation date is on the latest of (1) the date 60 days after the date the issue of bonds is no longer outstanding, (2) the date eight months after the date of issue for certain short-term obligations (i.e., obligations retired within three years), or (3) the date the issuer no longer reasonably expects any spending exception, discussed below, to apply to the issue. On such payment dates, other than the final payment date, an issuer is required to pay 90 percent of the rebatable arbitrage to the United States. On the final payment date, an issuer is required to pay 100 percent of the remaining rebate liability.

Failure to timely pay rebate does not necessarily result in the loss of tax-exemption. Late payments, however, are subject to the payment of interest, and unless waived, a penalty of 50 percent (or, in the case of private activity bonds, other than qualified 501(c)(3) bonds, 100 percent) of the rebate amount which is due. IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.

Rebate payments are refundable. The issuer, however, must establish to the satisfaction of the Commissioner of the Internal Revenue Service that the issuer paid an amount in excess of the rebate and that the recovery of the overpayment on that date would not result in additional rebatable arbitrage. An overpayment of less than \$5,000 may not be recovered before the final computation date.

### **Alternative Penalty Amount**

In certain cases, an issuer of a bond the proceeds of which are to be used for construction may elect to pay a penalty, in lieu of rebate. The penalty may be elected in circumstances in which the issuer expects to satisfy the two-year spending exception which is more fully described under the heading "Exceptions to Rebate." The penalty is payable, if at all, within 60 days after the end of each six-month period. This is more often than rebate. The election of the alternative penalty amount would subject an issuer, which fails the two-year spend-out requirements, to the payment of a penalty equal to one and one-half of the excess of the amount of proceeds which was required to be spent during that period over the amount which was actually spent during the period.

The penalty has characteristics which distinguish it from arbitrage rebate. First, the penalty would be payable without regard to whether any arbitrage profit is actually earned. Second, the penalty continues to accrue until either (1) the appropriate amount is expended or (2) the issuer elects to terminate the penalty. To be able to terminate the penalty, the issuer must meet specific requirements and, in some instances, must pay an additional penalty equal to three percent of the unexpended proceeds.



## Exceptions to Rebate

The Code and regulations provide certain exceptions to the requirement that the excess investment earnings be rebated to the United States.

a. *Small Issuers.* The first exception provides that if an issuer (together with all subordinate issuers) during a calendar year does not issue tax-exempt bonds<sup>2</sup> in an aggregate face amount exceeding \$5 million, then the obligations are not subject to rebate. *Only issuers with general taxing powers may take advantage of this exception.* Subordinate issuers are those issuers which derive their authority to issue bonds from the same issuer, e.g., a city and a health facilities development corporation, or which are controlled by the same issuer, e.g., a state and the board of a public university. In the case of bonds issued for public school capital expenditures, the \$5 million cap may be increased to as much as \$15 million. For purposes of measuring whether bonds in the calendar year exceed these dollar limits, current refunding bonds can be disregarded if they meet certain structural requirements. Please contact McCall, Parkhurst & Horton L.L.P. for further information.

b. *Spending Exceptions.*

*Six-Month Exception.* The second exception to the rebate requirement is available to all tax-exempt bonds, all of the gross proceeds of which are expended during six months. The six month rule is available to bonds issued after the effective date of the Tax Reform Act of 1986. See the discussion of effective dates on page two. For this purpose, proceeds used for the redemption of bonds (other than proceeds of a refunding bond deposited to an escrow fund to discharge refunded bonds) cannot be taken into account as expended. As such, bonds with excess gross proceeds generally cannot satisfy the second exception unless the amount does not exceed the lesser of five percent or \$100,000 and such de minimis amount must be expended within one year.

Certain gross proceeds are not subject to the spend-out requirement, including amounts deposited to a bona fide debt service fund, to a reserve fund and amounts which become gross proceeds received from purpose investments. These amounts themselves, however, may be subject to rebate even though the originally expended proceeds were not.

The Code provides a special rule for tax and revenue anticipation notes (i.e., obligations issued to pay operating expenses in anticipation of the receipt of taxes and other revenues). Such notes are referred to as TRANs. To determine the timely expenditure of the proceeds of a TRAN, the computation of the "cumulative cash flow deficit" is important. If the "cumulative cash flow deficit" (i.e., the point at which the operating expenditures of the issuer on a cumulative basis exceed the revenues of the issuer during the fiscal year) occurs within the first six months of the date of issue and must be equal to at least 90 percent of the proceeds of the TRAN, then the notes are deemed to satisfy the exception. This special rule requires, however, that the deficit actually occur, not that the issuer merely have an expectation that the deficit will occur. In lieu of the statutory exception for TRANs, the regulations also provide a second exception. Under this exception, 100 percent of the proceeds must be spent within six months, but before note proceeds can be considered

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<sup>2</sup> For this purpose, "private activity bonds" neither are afforded the benefit of this exception nor are taken into account for purposes of determining the amount of bonds issued.

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spent, all other available amounts of the issuer must be spent first ("proceeds-spent-last" rule). In determining whether all available amounts are spent, a reasonable working capital reserve equal to five percent of the prior year's expenditures may be set aside and treated as unavailable.

18-Month Exception. The regulations also establish a non-statutory exception to arbitrage rebate if all of the gross proceeds (including investment earnings) are expended within 18 months after the date of issue. Under this exception, 15 percent of the gross proceeds must be expended within a six-month spending period, 60 percent within a 12-month spending period and 100 percent within an 18-month spending period. The rule permits an issuer to rely on its reasonable expectations for computing investment earnings which are included as gross proceeds during the first and second spending period. A reasonable retainage not to exceed five percent of the sale proceeds of the issue is not required to be spent within the 18-month period but must be expended within 30 months. Rules similar to the six-month exception relate to the definition of gross proceeds.

Two Year Exception. Bonds issued after December 19, 1989 (i.e., the effective date of the Omnibus Reconciliation Act of 1989), at least 75 percent of the net proceeds of which are to be used for construction, may be exempted from rebate if the gross proceeds are spent within two years. Bonds more than 25 percent of the proceeds of which are used for acquisition or working capital may not take advantage of this exception. The exception applies only to governmental bonds, qualified 501(c)(3) bonds and private activity bonds for governmentally-owned airports and docks and wharves. The two-year exception requires that at least 10 percent of the available construction proceeds must be expended within six months after the date of issue, 45 percent within 12 months, 75 percent within 18 months and 100 percent within 24 months. The term "available construction proceeds" generally means sale proceeds of the bonds together with investment earnings less amounts deposited to a qualified reserve fund or used to pay costs of issuance. Under this rule, a reasonable retainage not to exceed five percent need not be spent within 24 months but must be spent within 36 months.

The two-year rule also provides for numerous elections which must be made not later than the date of issuance of the bonds. Once made, the elections are irrevocable. Certain elections permit an issuer to bifurcate bond issues, thereby treating only a portion of the issue as a qualified construction bond; and, permit an issuer to disregard earnings from reserve funds for purposes of determining "available construction proceeds." Another election permits an issuer to pay the alternative penalty amount discussed above in lieu of rebate if the issuer ultimately fails to satisfy the two-year rule. Issuers should discuss these elections with their financial advisors prior to issuance of the bonds. Of course, McCall, Parkhurst & Horton L.L.P. remains available to assist you by providing legal interpretations thereof.

Debt Service Funds. Additionally, an exception to the rebate requirement, whether or not any of the previously discussed exceptions are available, applies for earnings on "bona fide debt service funds." A "bona fide debt service fund" is one in which the amounts are expended within 13 months of the accumulation of such amounts by the issuer. In general, most interest and sinking funds (other than any excess taxes or revenues accumulated therein) satisfy these requirements. For private activity bonds, short term bonds (i.e., have a term of less than five years) or variable rate bonds, the exclusion is

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available only if the gross earnings in such fund does not exceed \$100,000, for the bond year. For other bonds issued after November 11, 1988, no limitation is applied to the gross earnings on such funds for purposes of this exception. Therefore, subject to the foregoing discussion, the issuer is not required to take such amounts into account for purposes of the computation.

**Conclusion**

McCall, Parkhurst & Horton L.L.P. hopes that this memorandum will prove to be useful as a general guide to the arbitrage rebate requirements.

Again, this memorandum is not intended as an exhaustive discussion nor as specific advice with respect to any specific transaction. We advise our clients to seek competent financial and accounting assistance. Of course, we remain available to provide legal advice regarding all federal income tax matters, including arbitrage rebate. If you have any questions, please feel free to contact either Harold T. Flanagan or Stefano Taverna at (214) 754-9200.



EXHIBIT "B"

November 1, 2016

**Certain Federal Income Tax Considerations for  
Private Business Use of Bond-Financed Facilities**

This memorandum provides a general discussion of those types of contractual arrangements which give rise to private business use, and to what extent that use rises to a prohibited level. Generally, in order for bonds issued by governmental units to be tax-exempt, no more than a de minimis amount of the proceeds of the bonds or the facilities financed with such proceeds may be used by non-governmental users. That is, there may be no more than an incidental use by persons, other than state or local governments. Too much private business use can cause the bonds to become taxable. Private business use for this purpose can be direct or can result from indirect benefits being conveyed to a private person by contractual arrangement. The following discussion describes, in general terms, those types of arrangements which need to be scrutinized.

We hope that this general guideline will be useful to you in interacting with private parties regarding the use of bond proceeds or bond-financed facilities. While the statements contained herein are not intended as advice with regard to any specific transaction, McCall, Parkhurst & Horton L.L.P. remains available should you have questions about these rules. If you have any specific questions or comments, please feel free to contact Stefano Taverna or Harold T. Flanagan at (214) 754-9200.

I. Private Business Use

Arrangements that involve use in a trade or business by a nongovernmental person of bond proceeds or facilities financed with bond proceeds may cause a "private business use" problem. Bond-financed facilities may be used by a variety of people with differing consequences under these rules. For example, students, teachers, employees and the general public may use bond-financed facilities on a non-exclusive basis without constituting private business use. More problematic, however, is use of bond-financed facilities by groups such as managers, lessees (e.g., book store owners), persons providing services (e.g., food or cleaning), seminar groups, sports and entertainment groups, and even alumni associations. The benefits also may be considered to pass to a private person where the right to the output produced by the facility is transferred. For this purpose, the federal government is considered a non-governmental person. Use by an organization organized under section 501(c)(3) of the Internal Revenue Code in a trade or business unrelated to the exempt purpose of such organization also is considered use by a private person.

The term "use" includes both actual and beneficial use. As such, private business use may arise in a variety of ways. For example, ownership of a bond-financed facility by a non-governmental person is private business use. The leasing of a bond-financed facility by a non-governmental person can also cause a private business use problem. Along the same line, management of such facilities by a non-governmental person can cause a problem with private business use, absent compliance with the management contract rules discussed below. Essentially, such use can occur in connection with any arrangement in which the non-governmental user has a preference to benefit from the proceeds

600 Congress Ave., Suite 1800  
Austin, Texas 78701  
T 512.478.3805  
F 512.472.0871

717 North Harwood, Suite 900  
Dallas, Texas 75201  
T 214.754 9200  
F 214.754.9250

700 N. St. Mary's Street, Suite 1525  
San Antonio, Texas 78205  
T 210.225.2800  
F 210 225.2984

[www.mphlegal.com](http://www.mphlegal.com)



or the facilities. Therefore, any arrangement which results in a non-governmental person being the ultimate beneficiary of the bond financing must be considered.

1. Sales and Leases. The sale of a bond-financed facility to a non-governmental person would cause a private business use problem if that facility involved the use of more than 10 percent of the bond proceeds. Since state law often prohibits a governmental issuer from lending credit, this circumstance generally does not occur. Leases, however, also could be a problem because such arrangements grant a possessory interest in the facility which results in the lessee receiving a right to use the facility which is superior to members of the general public.

2. Management Contracts. Having a private manager will give rise to private business use unless certain terms of the management agreement demonstrate that beneficial use has not been passed to the manager. These factors relate to the compensation arrangements, contract term, cancellation provisions, and the relationship of the parties.

The primary focus of these rules is on compensation. In general, compensation must be reasonable and not be based, in whole or in part, on a share of net profits. Compensation arrangements may take one of four forms: (1) periodic fixed fee; (2) capitation fee; (3) per-unit fee; or (4) percentage of fees charged. In general, a periodic fixed fee arrangement, however, is required in which at least 50 percent of annual compensation be based on a predetermined fee. During the initial two year start-up period, compensation may be based on a percentage of fees charged (i.e., gross revenues, adjusted gross revenues or expenses).

The term of a management contract, generally, may not exceed five years, including all renewal options, and must be cancelable by the governmental unit at the end of the third year. If per-unit fee compensation is used, the term is limited to three years, with a cancellation option for the governmental unit at the end of two years. Where compensation is based on a percentage of gross revenues, the contract may not extend beyond a term of two years, cancelable by the governmental unit at the end of the first year. In each instance, cancellation may be upon reasonable notice, but must be "without penalty or cause," meaning no covenant not to compete, buy-out provision or liquidated damages provision is allowed.

Finally, the manager may not have any role or relationship with the governmental unit that would limit the ability of the governmental unit to exercise its rights under the contract. Any voting power of either party which is vested in the other party, including its officers, directors, shareholders and employees, may not exceed 20 percent. Further, the chief executive officer of either party may not serve on the governing board of the other party. Similarly, the two parties must not be members of the same controlled group or be related persons, as defined in certain provisions of federal tax law.

3. Cooperative Research Agreements. A cooperative research agreement with a private sponsor whereby the private party uses bond-financed facilities may cause a private business use problem. Nevertheless, such use of a bond-financed facility by a non-governmental person is to be disregarded for purposes of private business use if the arrangement is in one of the following forms. First, the arrangement may be disregarded if the sponsoring party is required to pay a competitive price for any license or other use of resulting technology, and such price must be determined at the time the technology is available. Second, an arrangement may also qualify if a four-part requirement is met: (1) multiple, unrelated industry sponsors must agree to fund university-performed basic research; (2) the university must determine the research to be performed and the manner in which it is to be performed; (3) the university must have exclusive title to any patent or other product incidentally resulting from the basic research; and (4) sponsors must be limited to no more than a nonexclusive, royalty-free license to use the product of any such research.



4. Output Contracts. In some circumstances, private business use arises by virtue of contractual arrangements in which a governmental unit agrees to sell the output from a bond-financed facility to a non-governmental person. If the non-governmental person is obligated to take the output or to pay for output even if not taken, then private business use will arise. This is because the benefits and burdens of the bond-financed facility are considered as inuring to the non-governmental purchaser. In addition to the general rule, output-type facilities, including electric and gas generation, transmission and related facilities (but not water facilities) are further limited in the amount of private business use which may be permitted. If more than 5 percent of the proceeds are used for output facilities and if more than 10 percent of the output is sold pursuant to an output arrangement, then the aggregate private business use which may result (for all bond issues) is \$15,000,000.

## II. How Much Private Business Use is Too Much?

In general, there is too much private business use if an amount in excess of 10 percent of the proceeds of the bond issue are to be used, directly or indirectly, in a trade or business carried on by persons other than governmental units, and other than as members of the general public. All trade or business use by persons on a basis different than that of the general public is aggregated for the 10 percent limit. Private business use is measured on a facility or bond issue basis. On a facility basis, such use is generally measured by relative square footage, fair market rental value or the percentage of cost allocable to the private use. On a bond issue basis, the proceeds of the bond issue are allocated to private and governmental (or public) use of the facility to determine the amount of private business use over the term of the bond issue. Temporary use is not necessarily "bad" (i.e. private use) even though it results in more than 10 percent of the facility being so used. For example, if 100 percent of a facility is used for a period equal to five percent of the term of the bond such use may not adversely impact the bonds. The question is whether the benefits and burdens of ownership have transferred to the private user, as in the case of a sale, lease or management contract. If these benefits and burdens have not transferred, such use may be disregarded for purposes of private business use. In no event should private business use exceed \$15,000,000.

In addition, if the private use is considered "unrelated or disproportionate" to the governmental purpose for issuance of the bonds, the private business use test is met if the level of the prohibited private use rises to 5 percent. The "unrelated" question turns on the operational relationship between the private use and use for the governmental purpose. In most cases, a related use facility must be located within or adjacent to the related governmental facility, e.g., a privately-operated school cafeteria would be related to the school in which it is located. Whereas, the use of a bond-financed facility as an administrative office building for a catering company that operates cafeterias for a school system would not be a related use of bond proceeds. Nonetheless, even if a use is related, it is disproportionate to the extent that bond proceeds used for the private use will exceed proceeds used for the related governmental use.

## III. When are the tests applied to analyze the qualification of a bond?

A bond is tested both (1) on the date of issue, and (2) over the term. The tests are applied to analyze the character of the bond on the date of issue, based on how the issuer expects to use the proceeds and the bond-financed property. This is known as the "**reasonable expectations**" standard. The tests also continuously are applied during the term of the bonds to determine whether there has been a deviation from those expectations. This is known as the "**change of use**" standard. When tested, bonds are viewed on an "issue-by-issue" basis. Generally, bonds secured by the same sources of funds are part of the same "issue" if they are sold within 15 days of one another.





IV. What is the reasonable expectations standard?

The reasonable expectations standard will be the basis on which McCall, Parkhurst & Horton L.L.P., as bond counsel, will render the federal income tax opinion on the bonds. The statement of expectations will be incorporated into the Federal Tax Certificate, previously referred to as the Federal Tax Certificate. The certificate also will contain information about the amounts to be expended on different types of property, e.g., land, buildings, equipment, in order to compute a weighted useful life of the bond-financed property. Based on the information on useful life, the maximum weighted average maturity of the bonds tested to ensure that is restricted to no more than 120 percent of the useful life of the property being financed or refinanced.

V. Change of Use Standard.

The disqualified private business use need not exist on the date of issue. Subsequent use by non-governmental persons also can cause a loss of tax-exemption. Post-issuance "change of use" of bond-financed facilities could result in the loss of the tax-exempt status of the bonds, unless certain elements exist which demonstrate the change was unforeseen. For this purpose, a change in use includes a failure to limit private business use subsequent to the date of issuance of the bonds. A reasonable expectation element requires that, as of the date of issue of the bonds, the governmental unit reasonably have expected to use the proceeds of the issue for qualified facilities for the entire term of the issue. To fall within the safe harbor rules which avoid loss of tax-exempt status the governmental unit must assure that no circumstances be present which indicate an attempt to avoid directly or indirectly the requirements of federal income tax law.

Finally, the safe harbor requires that the governmental unit take remedial action that would satisfy one of the following provisions: redemption of bonds; alternative use of disposition proceeds of a facility that is financed by governmental bonds; or, alternative use of a facility that is financed by governmental bonds. For purposes of the latter two remedial action provisions, the governmental unit has 90 days from the date of the change of use to satisfy the requirements. In addition, there is an exception for small transactions for dispositions at a loss.

VI. Written Procedures.

Each governmental issuer should establish written procedures to assure continuing compliance with the private use and arbitrage limitations imposed by the Code. Moreover, the Internal Revenue Service ("IRS") is asking issuers to state in a bond issue's informational return (such as an 8038-G) whether such post-issuance procedures have been adopted. The federal tax certificate, together with the attached memoranda and bond covenants can be supplemented by standard written practices adopted by the executive officer or legislative bodies of the issuer. Accordingly, our firm is prepared to advise you with respect to additional practices which we believe would be beneficial in monitoring compliance and taking remedial action in cases of change in use. There is no standard uniform practice for all issuers to adopt because each issuer operates in unique fashion. However, if you wish us to assist you in developing practices which might assist you in complying with the viewpoints expressed by the IRS and its personnel, please contact your bond lawyer at McCall, Parkhurst & Horton LLP.

Exhibit "C"

LAW OFFICES

**McCALL, PARKHURST & HORTON L.L.P.**

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: (512) 478-3805  
FACSIMILE: (512) 472-0871

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE: (214) 754-9200  
FACSIMILE: (214) 754-9250

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: (210) 225-2800  
FACSIMILE (210) 225-2984

November 15, 2016

Board of Directors  
Reunion Ranch Water Control and Improvement District  
c/o Willatt & Flickinger, PLLC  
12912 Hill Country Boulevard, Suite F-232  
Austin, Texas 78738

Re: Reunion Ranch Water Control and Improvement District  
Unlimited Tax Bonds, Series 2016

Ladies and Gentlemen:

As you know, the Reunion Ranch Water Control and Improvement District (the "Issuer") will issue the captioned bonds in order to provide for the acquisition and construction of the project. As a result of that issuance, the federal income tax laws impose certain restrictions on the investment and expenditure of amounts to be used for the project or to be deposited to the debt service fund for the captioned bonds. The purpose of this letter is to set forth, in somewhat less technical language, those provisions of the tax law which require the timely use of bond proceeds and that investment of these amounts be at a yield which is not higher than the yield on the captioned bonds. For this purpose, please refer to line 21(e) of the Form 8038-G included in the transcript of proceedings for the yield on the captioned bonds. Please note that the Form 8038-G has been prepared based on the information provided by or on your behalf by your financial advisor. Accordingly, while we believe that the information is correct you may wish to have the yield confirmed before your rebate consultant or the paying agent attempt to rely on it.

Generally, the federal tax laws provide that, unless excepted, amounts to be used for the project or to be deposited to the debt service fund must be invested in obligations the combined yield on which does not exceed the yield on the bonds. Importantly, for purposes of administrative convenience, the bonds, however, have been structured in such a way as to avoid, for the most part, this restriction on investment yield. They also contain certain covenants relating to expenditures of proceeds designed to alert you to unintentional failures to comply with the laws affecting expenditures of proceeds and dispositions of property.

First, the sale and investment proceeds to be used for the new money project may be invested for up to three years without regard to yield. (Such amounts, however, may be subject to rebate.) Thereafter, they must be invested at or below the bond yield. Importantly, expenditure of these proceeds must be accounted in your books and records. Allocations of these expenditures must occur within 18 months of the later of the date paid or the date the project is completed. The foregoing notwithstanding, the allocation should not occur later than

60 days after the earlier of (1) of five years after the delivery date of the bonds or (2) the date the bonds are retired unless you obtain an opinion of bond counsel.

Second, the debt service fund is made up of taxes which are levied annually for the payment of current debt service on all the District's outstanding bonds. Any taxes deposited to the debt service fund which are to be used for the payment of current debt service on the captioned bonds, or any other outstanding bonds, are not subject to yield restriction. By definition, current debt service refers only to debt service to be paid within one year of the date of receipt of the taxes. For the most part, this would be debt service in the current fiscal year. These amounts deposited to the account for current debt service may be invested without regard to any constraint imposed by the federal income tax laws.

Third, the debt service fund contains an amount of taxes, which although not expended for debt service within the current year, are necessary to ensure that amounts will be sufficient to pay debt service in the event that taxes are insufficient during that period. This amount, commonly referred to as "coverage," represents a reserve account against periodic fluctuations in the receipt of tax revenues. The Internal Revenue Code permits amounts which are held in reserve for the payment of debt service, in such instances, to be invested without regard to yield restriction if such amounts do not exceed the lesser of (1) 10 percent of the outstanding principal amount of all outstanding bonds, (2) maximum annual debt service on all outstanding bonds, or (3) 125 percent of average annual debt service on all outstanding bonds.

Fourth, a portion of the debt service fund is permitted to be invested without regard to yield restriction as a "minor portion." The "minor portion" exception is available for de minimis amounts of taxes deposited to the debt service fund. The maximum amount that may be invested as part of this account may not exceed the lesser of five percent of the principal amount of the bonds or \$100,000.

Accordingly, you should review the current balance in the debt service fund in order to determine if such balance exceeds the aggregate amount of these three accounts. Additionally, in the future it is important that you be aware of these accounts as additional amounts are deposited to the debt service fund. The amounts which are subject to yield restriction would only be the amounts which are in excess of the sum of (1) the current debt service account, (2) the reserve account, and (3) the "minor portion" account. Moreover, to the extent that additional bonds are issued by the District, whether for new money projects or for refunding, these amounts will change in their proportion.

The Order contains covenants that require the District to comply with the requirements of the federal tax laws relating to the tax-exempt obligations. The Internal Revenue Service (the "Service") has determined that certain materials, records and information should be retained by the issuers of tax-exempt obligations for the purpose of enabling the Service to confirm the exclusion of the interest on such obligations under the Internal Revenue Code. **Accordingly, the District should retain such materials, records and information for the period beginning on the issue date of the captioned bonds and ending three years after the date the captioned bonds are retired. Please note this federal tax law standard may vary from state law standards.** The material, records and information required to be retained will generally be contained in the transcript of proceedings for the captioned bonds, however, the District should collect and retain additional materials, records and information to ensure the continued compliance with federal tax law requirements. For example, beyond the transcript of proceedings for the bonds, the District should keep schedules evidencing the expenditure of bond proceeds, documents relating to the use of bond-financed property by governmental and any private parties (e.g., leases and management contracts, if any) and schedules pertaining to the investment of bond proceeds. In the event that you have questions relating to record retention, please contact us.

The Service also wants some assurance that any failure to comply with the federal tax laws was not due

to an issuer's intentional disregard or gross neglect of the responsibilities imposed on it by the federal tax laws. Therefore, to ensure post-issuance compliance, an issuer should consider adopting formalized written guidelines to help the issuer perform diligence reviews at regular intervals. The goal is for issuers to be able to timely identify and resolve violations of the laws necessary to maintain their obligations' tax-favored status. While the federal tax certificate, together with its attachments, may generally provide a basic written guideline when incorporated in an organizations' operations, the extent to which an organization has appropriate written compliance procedures in place is to be determined on a case-by-case basis. Moreover, the Service has indicated that written procedures should identify the personnel that adopted the procedures, the personnel that is responsible for monitoring compliance, the frequency of compliance check activities, the nature of the compliance check activities undertaken, and the date such procedures were originally adopted and subsequently updated, if applicable. The Service has stated that the adoption of such procedures will be a favorable factor that the Service will consider when determining the amount of any penalty to be imposed on an issuer in the event of an unanticipated and non-curable failure to comply with the tax laws.

Finally, you should notice that the Order contains a covenant that limits the ability of the District to sell or otherwise dispose of bond-financed property for compensation. Beginning for obligations issued after May 15, 1997 (including certain refunding bonds), or in cases in which an issuer elects to apply new private activity bond regulations, such sale or disposition causes the creation of a class of proceeds referred to as "disposition proceeds." Disposition proceeds, like sale proceeds and investment earnings, are tax-restricted funds. Failure to appropriately account, invest or expend such disposition proceeds would adversely affect the tax-exempt status of the bonds. In the event that you anticipate selling property, even in the ordinary course, please contact us.

Obviously, this letter only presents a fundamental discussion of, among other tax rules, the yield restriction rules as applied to amounts deposited to the debt service fund. This letter does not address the rebate consequences with respect to the debt service fund and you should review the memorandum attached to the Federal Tax Certificate as Exhibit "A" for this purpose. If you have certain concerns with respect to the matters discussed in this letter or wish to ask additional questions with regards to certain limitations imposed, please feel free to contact our firm. Thank you for your consideration and we look forward to our continued relationship.

Very truly yours,

McCALL, PARKHURST & HORTON L.L.P.

cc: Ms. Jana H. Edwards  
Mr. Clayton C. Chandler

Exhibit "D"

ISSUE PRICE CERTIFICATE

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[To be attached hereto]

### ISSUE PRICE CERTIFICATE

The undersigned hereby certifies with respect to the sale of the Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 (the "Bonds"), issued in the aggregate principal amount of \$3,700,000, as follows:

1. The undersigned is the duly authorized representative of the purchaser (the "Initial Purchaser") of the Bonds from the District.
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Initial Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Initial Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)
\$ 90,000	2018	1.50 %	\$ 155,000	2030	3.80 %
95,000	2019	1.75 %	160,000	2031	3.90 %
95,000	2020	2.0 %	170,000	2032	4.0 %
100,000	2021	2.25 %	175,000	2033	4.05 %
105,000	2022	2.50 %	185,000	2034	4.10 %
110,000	2023	2.75 %	190,000	2035	- %
115,000	2024	3.0 %	195,000	2036	- %
125,000	2025	3.20 %	200,000	2037	4.125 %
130,000	2026	3.40 %	205,000	2038	- %
135,000	2027	3.50 %	210,000	2039	- %
140,000	2028	3.60 %	215,000	2040	- %
145,000	2029	3.70 %	255,000	2041	4.25 %

5. In the case of the Retained Maturities, the Initial Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)
\$ -	2018	- %	\$ 155,000	2030	3.80 %
-	2019	- %	-	2031	- %
-	2020	- %	-	2032	- %
-	2021	- %	-	2033	- %
-	2022	- %	-	2034	- %
-	2023	- %	-	2035	- %
-	2024	- %	-	2036	- %
125,000	2025	3.20 %	-	2037	- %
130,000	2026	3.40 %	-	2038	- %
135,000	2027	3.50 %	-	2039	- %
-	2028	- %	-	2040	- %
145,000	2029	3.70 %	-	2041	- %

6. The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the District in connection with the issuance of the Bonds and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the district that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

EXECUTED and DELIVERED this 14<sup>th</sup> day of December, 2016.

Name of Purchaser or Manager

Matthew Rustin  
 By: Matthew Rustin  
 Title: Vice President

Exhibit "E"

SCHEDULES OF FINANCIAL ADVISOR

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[To be attached hereto]

FINAL

**Reunion Ranch Water Control & Improvement District**

\$3,700,000 Unlimited Tax Bonds, Series 2016

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FINAL

## Reunion Ranch Water Control & Improvement District

\$3,700,000 Unlimited Tax Bonds, Series 2016

### Sources & Uses

Dated 11/15/2016 | Delivered 12/22/2016 (Interest accrues from the date of initial delivery)

#### Sources Of Funds

Par Amount of Bonds	\$3,700,000.00
Reoffering Premium	16,261.70
Original Issue Discount (OID)	(16,318.65)
<b>Total Sources</b>	<b>\$3,699,943.05</b>

#### Uses Of Funds

Total Underwriter's Discount (2.998%)	110,943.05
Costs of Issuance	144,761.00
Deposit to Project Construction Fund	3,213,125.46
Deposit to Debt Service Fund (Cap-Interest)	231,113.54
<b>Total Uses</b>	<b>\$3,699,943.05</b>

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**Reunion Ranch Water Control & Improvement District**

**\$3,700,000 Unlimited Tax Bonds, Series 2016**

**Pricing Summary**

<b>Maturity</b>	<b>Type of Bond</b>	<b>Coupon</b>	<b>Yield</b>	<b>Maturity Value</b>	<b>Price</b>	<b>Dollar Price</b>
08/15/2018	Serial Coupon	3 000%	1 500%	90,000 00	102 430%	92,187 00
08/15/2019	Serial Coupon	3 000%	1 750%	95,000 00	103 218%	98,057 10
08/15/2020	Serial Coupon	3 000%	2 000%	95,000 00	103 498%	98,323 10
08/15/2021	Serial Coupon	3 000%	2 250%	100,000 00	103 290%	103,290 00
08/15/2022	Serial Coupon	3 000%	2 500%	105,000 00	102 616%	107,746 80
08/15/2023	Serial Coupon	3 000%	2 750%	110,000 00	101 507%	111,657 70
08/15/2024	Serial Coupon	3 000%	3 000%	115,000 00	100 000%	115,000 00
08/15/2025	Serial Coupon	3 125%	3 200%	125,000 00	99 434%	124,292 50
08/15/2026	Serial Coupon	3 375%	3 400%	130,000 00	99 792%	129,729 60
08/15/2027	Serial Coupon	3 500%	3 500%	135,000 00	100 000%	135,000 00
08/15/2028	Serial Coupon	3 500%	3 600%	140,000 00	99 052%	138,672 80
08/15/2029	Serial Coupon	3 625%	3 700%	145,000 00	99 244%	143,903 80
08/15/2030	Serial Coupon	3 750%	3 800%	155,000 00	99 467%	154,173 85
08/15/2031	Serial Coupon	3 750%	3 900%	160,000 00	98 334%	157,334 40
08/15/2032	Serial Coupon	4 000%	4 000%	170,000 00	100 000%	170,000 00
08/15/2033	Serial Coupon	4 000%	4 050%	175,000 00	99 394%	173,939 50
08/15/2034	Serial Coupon	4 000%	4 100%	185,000 00	98 748%	182,683 80
08/15/2037	Term 1 Coupon	4 125%	4 200%	585,000 00	98 966%	578,951 10
08/15/2041	Term 2 Coupon	4 250%	4 250%	885,000 00	100 000%	885,000 00
<b>Total</b>	-	-	-	<b>\$3,700,000.00</b>	-	<b>\$3,699,943.05</b>

**Bid Information**

Par Amount of Bonds	\$3,700,000 00
Reoffering Premium or (Discount)	(56 95)
Gross Production	\$3,699,943 05
Total Underwriter's Discount (2 998%)	\$(110,943 05)
Bid (97 000%)	3,589,000 00
Total Purchase Price	\$3,589,000 00
Bond Year Dollars	\$56,014 72
Average Life	15 139 Years
Average Coupon	3 9660466%
Net Interest Cost (NIC)	4 1642087%
True Interest Cost (TIC)	4 2114026%

2016 \$3 7mm u/l tax (11/1 | SINGLE PURPOSE | 11/15/2016 | 9 44 AM

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**Reunion Ranch Water Control & Improvement District**

**\$3,700,000 Unlimited Tax Bonds, Series 2016**

**Debt Service Schedule**

Part 1 of 3

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/22/2016	-	-	-	-	-
08/15/2017	-	-	90,113 56	90,113 56	-
09/30/2017	-	-	-	-	90,113 56
02/15/2018	-	-	69,615 63	69,615 63	-
08/15/2018	90,000 00	3 000%	69,615 63	159,615 63	-
09/30/2018	-	-	-	-	229,231 26
02/15/2019	-	-	68,265 63	68,265 63	-
08/15/2019	95,000 00	3 000%	68,265 63	163,265 63	-
09/30/2019	-	-	-	-	231,531 26
02/15/2020	-	-	66,840 63	66,840 63	-
08/15/2020	95,000 00	3 000%	66,840 63	161,840 63	-
09/30/2020	-	-	-	-	228,681 26
02/15/2021	-	-	65,415 63	65,415 63	-
08/15/2021	100,000 00	3 000%	65,415 63	165,415 63	-
09/30/2021	-	-	-	-	230,831 26
02/15/2022	-	-	63,915 63	63,915 63	-
08/15/2022	105,000 00	3 000%	63,915 63	168,915 63	-
09/30/2022	-	-	-	-	232,831 26
02/15/2023	-	-	62,340 63	62,340 63	-
08/15/2023	110,000 00	3 000%	62,340 63	172,340 63	-
09/30/2023	-	-	-	-	234,681 26
02/15/2024	-	-	60,690 63	60,690 63	-
08/15/2024	115,000 00	3 000%	60,690 63	175,690 63	-
09/30/2024	-	-	-	-	236,381 26
02/15/2025	-	-	58,965 63	58,965 63	-
08/15/2025	125,000 00	3 125%	58,965 63	183,965 63	-
09/30/2025	-	-	-	-	242,931 26
02/15/2026	-	-	57,012 50	57,012 50	-
08/15/2026	130,000 00	3 375%	57,012 50	187,012 50	-
09/30/2026	-	-	-	-	244,025 00
02/15/2027	-	-	54,818 75	54,818 75	-
08/15/2027	135,000 00	3 500%	54,818 75	189,818 75	-
09/30/2027	-	-	-	-	244,637 50
02/15/2028	-	-	52,456 25	52,456 25	-
08/15/2028	140,000 00	3 500%	52,456 25	192,456 25	-
09/30/2028	-	-	-	-	244,912 50
02/15/2029	-	-	50,006 25	50,006 25	-
08/15/2029	145,000 00	3 625%	50,006 25	195,006 25	-
09/30/2029	-	-	-	-	245,012 50
02/15/2030	-	-	47,378 13	47,378 13	-

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**Reunion Ranch Water Control & Improvement District**  
**\$3,700,000 Unlimited Tax Bonds, Series 2016**

**Debt Service Schedule**

Part 2 of 3

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
08/15/2030	155,000 00	3 750%	47,378 13	202,378 13	-
09/30/2030	-	-	-	-	249,756 26
02/15/2031	-	-	44,471 88	44,471 88	-
08/15/2031	160,000 00	3 750%	44,471 88	204,471 88	-
09/30/2031	-	-	-	-	248,943 76
02/15/2032	-	-	41,471 88	41,471 88	-
08/15/2032	170,000 00	4 000%	41,471 88	211,471 88	-
09/30/2032	-	-	-	-	252,943 76
02/15/2033	-	-	38,071 88	38,071 88	-
08/15/2033	175,000 00	4 000%	38,071 88	213,071 88	-
09/30/2033	-	-	-	-	251,143 76
02/15/2034	-	-	34,571 88	34,571 88	-
08/15/2034	185,000 00	4 000%	34,571 88	219,571 88	-
09/30/2034	-	-	-	-	254,143 76
02/15/2035	-	-	30,871 88	30,871 88	-
08/15/2035	190,000 00	4 125%	30,871 88	220,871 88	-
09/30/2035	-	-	-	-	251,743 76
02/15/2036	-	-	26,953 13	26,953 13	-
08/15/2036	195,000 00	4 125%	26,953 13	221,953 13	-
09/30/2036	-	-	-	-	248,906 26
02/15/2037	-	-	22,931 25	22,931 25	-
08/15/2037	200,000 00	4 125%	22,931 25	222,931 25	-
09/30/2037	-	-	-	-	245,862 50
02/15/2038	-	-	18,806 25	18,806 25	-
08/15/2038	205,000 00	4 250%	18,806 25	223,806 25	-
09/30/2038	-	-	-	-	242,612 50
02/15/2039	-	-	14,450 00	14,450 00	-
08/15/2039	210,000 00	4 250%	14,450 00	224,450 00	-
09/30/2039	-	-	-	-	238,900 00
02/15/2040	-	-	9,987 50	9,987 50	-
08/15/2040	215,000 00	4 250%	9,987 50	224,987 50	-
09/30/2040	-	-	-	-	234,975 00
02/15/2041	-	-	5,418 75	5,418 75	-
08/15/2041	255,000 00	4 250%	5,418 75	260,418 75	-
09/30/2041	-	-	-	-	265,837 50
<b>Total</b>	<b>\$3,700,000.00</b>	<b>-</b>	<b>\$2,221,569.96</b>	<b>\$5,921,569.96</b>	<b>-</b>

2016 \$3 7mm u/l tax (11/1 | SINGLE PURPOSE | 11/15/2016 | 9 44 AM

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**Reunion Ranch Water Control & Improvement District**

\$3,700,000 Unlimited Tax Bonds, Series 2016

**Debt Service Schedule**

Part 3 of 3

**Yield Statistics**

Bond Year Dollars	\$56,014.72
Average Life	15.139 Years
Average Coupon	3.9660466%
Net Interest Cost (NIC)	4.1642087%
True Interest Cost (TIC)	4.2114026%
Bond Yield for Arbitrage Purposes	3.9307149%
All Inclusive Cost (AIC)	4.5970120%

**IRS Form 8038**

Net Interest Cost	3.9803749%
Weighted Average Maturity	15.085 Years

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## Reunion Ranch Water Control & Improvement District

\$3,700,000 Unlimited Tax Bonds, Series 2016

### Proof Of Bond Yield @ 3.9307149%

Part 1 of 2

Date	Cashflow	PV Factor	Present Value	Cumulative PV
12/22/2016	-	1 0000000x	-	-
08/15/2017	90,113 56	0 9751210x	87,871 63	87,871 63
02/15/2018	69,615 63	0 9563258x	66,575 22	154,446 85
08/15/2018	159,615 63	0 9378929x	149,702 36	304,149 21
02/15/2019	68,265 63	0 9198152x	62,791 76	366,940 97
08/15/2019	163,265 63	0 9020860x	147,279 64	514,220 61
02/15/2020	66,840 63	0 8846985x	59,133 80	573,354 41
08/15/2020	161,840 63	0 8676461x	140,420 40	713,774 81
02/15/2021	65,415 63	0 8509225x	55,663 63	769,438 44
08/15/2021	165,415 63	0 8345212x	138,042 84	907,481 29
02/15/2022	63,915 63	0 8184360x	52,310 85	959,792 14
08/15/2022	168,915 63	0 8026608x	135,581 96	1,095,374 09
02/15/2023	62,340 63	0 7871897x	49,073 90	1,144,448 00
08/15/2023	172,340 63	0 7720168x	133,049 87	1,277,497 86
02/15/2024	60,690 63	0 7571364x	45,951 08	1,323,448 95
08/15/2024	175,690 63	0 7425428x	130,457 81	1,453,906 75
02/15/2025	58,965 63	0 7282304x	42,940 57	1,496,847 32
08/15/2025	183,965 63	0 7141940x	131,387 14	1,628,234 46
02/15/2026	57,012 50	0 7004281x	39,933 15	1,668,167 62
08/15/2026	187,012 50	0 6869275x	128,464 03	1,796,631 64
02/15/2027	54,818 75	0 6736871x	36,930 69	1,833,562 33
08/15/2027	189,818 75	0 6607020x	125,413 62	1,958,975 95
02/15/2028	52,456 25	0 6479671x	33,989 92	1,992,965 87
08/15/2028	192,456 25	0 6354777x	122,301 65	2,115,267 53
02/15/2029	50,006 25	0 6232290x	31,165 35	2,146,432 87
08/15/2029	195,006 25	0 6112164x	119,191 02	2,265,623 90
02/15/2030	47,378 13	0 5994354x	28,400 13	2,294,024 02
08/15/2030	202,378 13	0 5878814x	118,974 34	2,412,998 36
02/15/2031	44,471 88	0 5765501x	25,640 27	2,438,638 63
08/15/2031	204,471 88	0 5654373x	115,616 02	2,554,254 65
02/15/2032	41,471 88	0 5545386x	22,997 76	2,577,252 41
08/15/2032	211,471 88	0 5438500x	115,008 98	2,692,261 39
02/15/2033	38,071 88	0 5333674x	20,306 30	2,712,567 69
08/15/2033	213,071 88	0 5230869x	111,455 11	2,824,022 80
02/15/2034	34,571 88	0 5130045x	17,735 53	2,841,758 33
08/15/2034	219,571 88	0 5031165x	110,470 23	2,952,228 57
02/15/2035	30,871 88	0 4934190x	15,232 77	2,967,461 34
08/15/2035	220,871 88	0 4839085x	106,881 78	3,074,343 12
02/15/2036	26,953 13	0 4745813x	12,791 45	3,087,134 57
08/15/2036	221,953 13	0 4654339x	103,304 50	3,190,439 07

2016 \$3 7mm u/l tax (11/1 | SINGLE PURPOSE | 11/15/2016 | 9 44 AM

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**Reunion Ranch Water Control & Improvement District**

**\$3,700,000 Unlimited Tax Bonds, Series 2016**

**Proof Of Bond Yield @ 3.9307149%**

Part 2 of 2

<b>Date</b>	<b>Cashflow</b>	<b>PV Factor</b>	<b>Present Value</b>	<b>Cumulative PV</b>
02/15/2037	22,931 25	0 4564627x	10,467 26	3,200,906 34
08/15/2037	222,931 25	0 4476645x	99,798 41	3,300,704 75
02/15/2038	18,806 25	0 4390359x	8,256 62	3,308,961 37
08/15/2038	223,806 25	0 4305736x	96,365 06	3,405,326 43
02/15/2039	14,450 00	0 4222744x	6,101 86	3,411,428 29
08/15/2039	224,450 00	0 4141351x	92,952 63	3,504,380 92
02/15/2040	9,987 50	0 4061528x	4,056 45	3,508,437 38
08/15/2040	224,987 50	0 3983243x	89,617 99	3,598,055 36
02/15/2041	5,418 75	0 3906467x	2,116 82	3,600,172 18
08/15/2041	260,418 75	0 3831171x	99,770 87	3,699,943 05
<b>Total</b>	<b>\$5,921,569.96</b>	<b>-</b>	<b>\$3,699,943.05</b>	<b>-</b>

**Derivation Of Target Amount**

Par Amount of Bonds	\$3,700,000 00
Reoffering Premium or (Discount)	(56 95)
Original Issue Proceeds	\$3,699,943 05

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**Reunion Ranch Water Control & Improvement District**

\$3,700,000 Unlimited Tax Bonds, Series 2016

**Derivation Of Form 8038 Yield Statistics**

Maturity	Issuance Value	Coupon	Price	Issuance Price	Exponent	Bond Years
12/22/2016	-	-	-	-	-	-
08/15/2018	90,000 00	3 000%	102 430%	92,187 00	1 6472222x	151,852 48
08/15/2019	95,000 00	3 000%	103 218%	98,057 10	2 6472222x	259,578 93
08/15/2020	95,000 00	3 000%	103 498%	98,323 10	3 6472222x	358,606 20
08/15/2021	100,000 00	3 000%	103 290%	103,290 00	4 6472222x	480,011 58
08/15/2022	105,000 00	3 000%	102 616%	107,746 80	5 6472222x	608,470 12
08/15/2023	110,000 00	3 000%	101 507%	111,657 70	6 6472222x	742,213 54
08/15/2024	115,000 00	3 000%	100 000%	115,000 00	7 6472222x	879,430 56
08/15/2025	125,000 00	3 125%	99 434%	124,292 50	8 6472222x	1,074,784 87
08/15/2026	130,000 00	3 375%	99 792%	129,729 60	9 6472222x	1,251,530 28
08/15/2027	135,000 00	3 500%	100 000%	135,000 00	10 6472222x	1,437,375 00
08/15/2028	140,000 00	3 500%	99 052%	138,672 80	11 6472222x	1,615,152 92
08/15/2029	145,000 00	3 625%	99 244%	143,903 80	12 6472222x	1,819,983 34
08/15/2030	155,000 00	3 750%	99 467%	154,173 85	13 6472222x	2,104,044 79
08/15/2031	160,000 00	3 750%	98 334%	157,334 40	14 6472222x	2,304,511 92
08/15/2032	170,000 00	4 000%	100 000%	170,000 00	15 6472222x	2,660,027 78
08/15/2033	175,000 00	4 000%	99 394%	173,939 50	16 6472222x	2,895,609 51
08/15/2034	185,000 00	4 000%	98 748%	182,683 80	17 6472222x	3,223,861 62
08/15/2035	190,000 00	4 125%	98 966%	188,035 40	18 6472222x	3,506,337 89
08/15/2036	195,000 00	4 125%	98 966%	192,983 70	19 6472222x	3,791,593 64
08/15/2037	200,000 00	4 125%	98 966%	197,932 00	20 6472222x	4,086,745 99
08/15/2038	205,000 00	4 250%	100 000%	205,000 00	21 6472222x	4,437,680 56
08/15/2039	210,000 00	4 250%	100 000%	210,000 00	22 6472222x	4,755,916 67
08/15/2040	215,000 00	4 250%	100 000%	215,000 00	23 6472222x	5,084,152 78
08/15/2041	255,000 00	4 250%	100 000%	255,000 00	24 6472222x	6,285,041 67
<b>Total</b>	<b>\$3,700,000.00</b>	<b>-</b>	<b>-</b>	<b>\$3,699,943.05</b>	<b>-</b>	<b>\$55,814,514.61</b>

**Description of Bonds**

Final Maturity Date	8/15/2041
Issue price of entire issue	3,699,943 05
Stated Redemption at Maturity	3,700,000 00
Weighted Average Maturity = Bond Years/Issue Price	15 085 Years
Bond Yield for Arbitrage Purposes	3 9307149%

**Uses of Proceeds of Issue**

Proceeds used for accrued interest	-
Proceeds used for bond issuance costs (including underwriters' discount)	255,704 05
Proceeds used for credit enhancement	-
Proceeds allocated to reasonably required reserve or replacement fund	-

2016 \$3 7mm u/l tax (11/1 | SINGLE PURPOSE | 11/15/2016 | 9 44 AM



Exhibit "F"

CERTIFICATE OF ELECTION PURSUANT TO SECTION 148(f)(4)(C)  
OF THE INTERNAL REVENUE CODE OF 1986

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I, the undersigned, being the duly authorized representative of the Reunion Ranch Water Control and Improvement District (the "Issuer") hereby state that the Issuer elects the provisions of section 148(f)(4)(C) of the Internal Revenue Code of 1986 (the "Code"), relating to the exception to arbitrage rebate for temporary investments, as more specifically designated below, with respect to the Issuer's Unlimited Tax Bonds, Series 2016 (the "Bonds") which are being issued on the date of delivery of the Bonds. The CUSIP Number for the Bonds is stated on the Form 8038-G filed in connection with the Bonds. The Issuer intends to take action to comply with the two-year temporary investments exception to rebate afforded construction bonds under section 148(f)(4)(C) of the Code or any of the other exceptions available to the Issuer in accordance with section 1.148-7 of the Treasury Regulations. Capitalized terms have the same meaning as defined in the Federal Tax Certificate.

1. PENALTY ELECTION. In the event that the Issuer should fail to expend the "available construction proceeds" of the Bonds in accordance with the provisions of section 148(f)(4)(C) of the Code, the Issuer elects, in lieu of rebate, the penalty provisions of section 148(f)(4)(C)(vii)(I) of the Code.

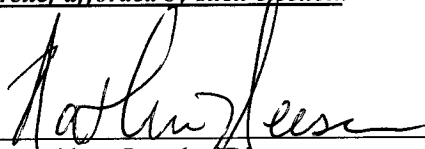
2. RESERVE FUND ELECTION. The Issuer elects to exclude from "available construction proceeds," within the meaning of section 148(f)(4)(C)(vi) of the Code, of the Bonds, earnings on the Reserve Fund in accordance with section 148(f)(4)(C)(vi)(IV) of the Code.

3. MULTIPURPOSE ELECTION. The Issuer elects to treat that portion of the Bonds the proceeds of which are to be used for the payment of expenditures for construction, reconstruction or rehabilitation of the Projects, as defined in the instrument authorizing the issuance of the Bonds, in an amount which is currently expected to be equal to \$ \_\_\_\_\_ as a separate issue in accordance with the provisions of section 148(f)(4)(C)(v)(II) of the Code. *(Note: This election is not necessary unless less than 75 percent of the proceeds of the Bonds will be used for construction, reconstruction or renovation.)*

4. ACTUAL FACTS. For purposes of determining compliance with section 148(f)(4)(c) of the Code (other than qualification of the Bonds as a qualified construction issue), the Issuer elects to use actual facts rather than reasonable expectations.

5. NO ELECTION. The Issuer understands that the elections which are adopted as evidenced by the check in the box adjacent to the applicable provision are ***irrevocable***. Further, the Issuer understands that qualification of the Bonds for eligibility for the exclusion from the rebate requirement set forth in section 148(f) of the Code is based on subsequent events and is unaffected by the Issuer's expectations of such events as of the date of delivery of the Bonds. ***Accordingly, while failure to execute this certificate and to designate the intended election does not preclude qualification, it would preclude the Issuer from the relief afforded by such election.***

DATED: December 22, 2016



President, Board of Directors  
Reunion Ranch Water Control and Improvement  
District  
c/o Willatt & Flickinger, PLLC  
12912 Hill Country Boulevard, Suite F-232  
Austin, Texas 78738  
Employer I.D. Number: 77-0673282

LAW OFFICES

**M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE 214 754-9200  
FACSIMILE 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE 512 478-3805  
FACSIMILE 512 472-0871

700 N ST MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 210 225-2800  
FACSIMILE 210 225-2984

December 22, 2016

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BONDS, SERIES 2016  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,700,000**

**AS BOND COUNSEL FOR THE REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on November 15, 2016 authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from

contracts with other persons, including private corporations, municipalities, and political subdivisions.

**IT IS FURTHER OUR OPINION** that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations under section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

*McCall, Parkhurst & Horton L.L.P.*

**M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
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700 N ST MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 210 225-2800  
FACSIMILE 210 225-2984

December 22, 2016

Reunion Ranch Water Control and  
Improvement District  
c/o Willatt & Flickinger, PLLC  
12912 Hill Country Blvd., Suite F-232  
Austin, Texas 78738

Re: \$3,700,000 Reunion Ranch Water Control and Improvement District Unlimited Tax  
Bonds, Series 2016

Ladies and Gentlemen:

We have acted as securities counsel in connection with the issuance of Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 (the "Bonds") issued under and pursuant to an order (the "Bond Order") adopted by the Board of Directors of Reunion Ranch Water Control and Improvement District (the "District") authorizing the issuance of the Bonds.

In connection with this opinion letter, we have considered such matters of law and of fact, and have relied upon such certificates and other information furnished to us, as we have deemed appropriate as a basis for our opinion set forth below. We are not expressing any opinion or views herein on the authorization, issuance, delivery, or validity of the Bonds and we have assumed, but not independently verified, that the signatures on all documents and certificates that we have examined are genuine.

Based on and subject to the foregoing, we are of the opinion that, under existing laws, the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Bond Order is not required to be qualified under the Trust Indenture Act of 1939, as amended.

Because the primary purpose of our professional engagement as your counsel was not to establish factual matters and because of the wholly or partially nonlegal character of many of the determinations involved in the preparation of the Preliminary Official Statement dated November 1, 2016, and the Official Statement dated November 15, 2016 (collectively, the "Official Statement"), we are not passing on and do not assume any responsibility for, except as set forth in the last sentence of this paragraph, the accuracy, completeness or fairness of the statements contained in the Official Statement (including any appendices, schedules and exhibits thereto) and we make no

representation that we have independently verified the accuracy, completeness or fairness of such statements. In the course of our participation in the preparation of the Official Statement, we had discussions with representatives of the District, the Financial Advisor, General Counsel and the Developer regarding the contents of the Official Statement. In the course of such activities, no facts came to our attention which would lead us to believe that the Official Statement (except for the financial statements and other financial and statistical data contained therein and the Appendices thereto, as to which no opinion is expressed), as of its date, contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Further, with respect to information under the caption "CONTINUING DISCLOSURE OF INFORMATION," we express no opinion regarding compliance with prior undertakings.

This opinion letter may be relied upon by only you and only in connection with the transaction to which reference is made above and may not be used or relied upon by any other person for any purposes whatsoever without our prior written consent.

Respectfully,

*McCall, Parkhurst & Horton L.L.P.*

TL



**KEN PAXTON**  
ATTORNEY GENERAL OF TEXAS

December 19, 2016

THIS IS TO CERTIFY that Reunion Ranch Water Control and Improvement District (the "Issuer") has submitted the Reunion Ranch Water Control and Improvement District Unlimited Tax Bond, Series 2016 (the "Bond") in the principal amount of \$3,700,000, for approval. The Bond is dated November 15, 2016, numbered T-1 and was authorized by an Order of the Issuer passed on November 15, 2016.

The Office of the Attorney General has examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We express no opinion relating to the official statement or any other offering material relating to the Bond.

Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

- (1) The Bond has been issued in accordance with law and is a valid and binding obligation of the Issuer.
- (2) The Bond is payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.

Therefore, the Bond is approved.

  
Attorney General of the State of Texas

No 62128  
Book No 2016-D  
MAR

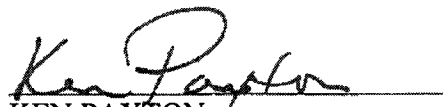
\*See attached Signature Authorization

OFFICE OF THE ATTORNEY GENERAL      §  
   §  
OF THE STATE OF TEXAS                               §

I, KEN PAXTON, Attorney General for the State of Texas, do hereby authorize the employees of the Public Finance Division of the Office of the Attorney General to affix a digital image of my signature, in my capacity as Attorney General, to the opinions issued by this office approving the issuance of public securities by the various public agencies, non-profit corporations, district, entities, bodies politic or corporate, or political subdivisions of this State as required by law, the opinions approving those contracts designated by the Legislature as requiring the approval of the Attorney General, and the obligations, proceedings and credit agreements required by law to be approved by the Attorney General. The authorized digital image of my signature is attached as Exhibit A and is hereby adopted as my own for the purposes set forth herein. This supersedes any prior signature authorizations for the same purpose.

The authority granted herein is to be exercised on those occasions when I am unavailable to personally sign said opinions, and upon the condition that the opinions to which the digital image signature is affixed have been approved by an authorized Assistant Attorney General following the completion of the Public Finance Division's review of the transcripts of proceedings to which the opinions relate.

Given under my hand and seal of office at Austin, Texas, this the 5th day of January, 2015.

  
KEN PAXTON  
Attorney General of the State of Texas



OFFICE OF COMPTROLLER  
OF THE STATE OF TEXAS

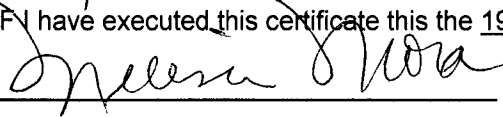
I, Melissa Mora,  Bond Clerk  Assistant Bond Clerk in the office of the Comptroller of the State of Texas, do hereby certify that, acting under the direction and authority of the Comptroller on the 19th day of December 2016, I signed the name of the Comptroller to the certificate of registration endorsed upon the:

Reunion Ranch Water Control and Improvement District Unlimited Tax Bond, Series 2016,

numbered T-1, dated November 15, 2016, and that in signing the certificate of registration I used the following signature:

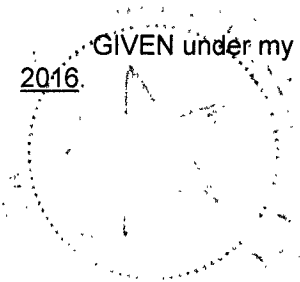
  
\_\_\_\_\_

IN WITNESS WHEREOF I have executed this certificate this the 19th day of December 2016.

  
\_\_\_\_\_

I, Glenn Hegar, Comptroller of Public Accounts of the State of Texas, certify that the person who has signed the above certificate was duly designated and appointed by me under authority vested in me by Chapter 403, Subchapter H, Government Code, with authority to sign my name to all certificates of registration, and/or cancellation of bonds required by law to be registered and/or cancelled by me, and was acting as such on the date first mentioned in this certificate, and that the bonds/certificates described in this certificate have been duly registered in the office of the Comptroller, under Registration Number 88363.

GIVEN under my hand and seal of office at Austin, Texas, this the 19th day of December 2016.





GLENN HEGAR  
Comptroller of Public Accounts  
of the State of Texas

OFFICE OF COMPTROLLER

OF THE STATE OF TEXAS

I, GLENN HEGAR, Comptroller of Public Accounts of the State of Texas, do hereby certify that the attachment is a true and correct copy of the opinion of the Attorney General approving the:

Reunion Ranch Water Control and Improvement District Unlimited Tax Bond, Series 2016

numbered T-1, of the denomination of \$ 3,700,000, dated November 15, 2016, as authorized by issuer, interest various percent, under and by authority of which said bonds/certificates were registered electronically in the office of the Comptroller, on the 19th day of December 2016, under Registration Number 88363.

Given under my hand and seal of office, at Austin, Texas, the 19th day of December 2016.

A handwritten signature in black ink, appearing to read 'Glenn Hegar', with a stylized flourish at the end.

GLENN HEGAR  
Comptroller of Public Accounts  
of the State of Texas

## LAW OFFICES

M<sup>c</sup>CALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE 214 754-9200  
FACSIMILE 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
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FACSIMILE 512 472-0871

700 N ST MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE 210 225-2800  
FACSIMILE 210 225-2984

**MEMORANDUM**

**DATE:** December 22, 2016

**TO:** Distribution\*

**FROM:** McCall, Parkhurst & Horton L.L.P.

**RE:** \$3,700,000 Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 - Closing Instructions

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The purpose of this memorandum is to set forth certain events and transfers which will occur on or before December 21, 2016 (the "Preclosing") and December 22, 2016 (the "Closing" or "Closing Date") with respect to the above captioned bonds (the "Bonds"). The Closing will take place at 10:00 a.m. at the offices of McCall, Parkhurst & Horton L.L.P., 600 Congress Avenue, Suite 1800, Austin, Texas 78701. The Closing will be handled by phone and no one is expected to be in attendance.

**I. Transfer of Bonds.**

A. Prior to the Closing, Bonds numbered R-1 through R-19 will be printed by McCall, Parkhurst & Horton L.L.P. and delivered by December 22, 2016 to BOKF, NA ("BOKF"), 100 Congress Avenue, Suite 250, Austin, Texas 78701, Attn. Jose Gaytan for authentication and safekeeping pending transfer as provided below.

Additionally, prior to the Closing, one bond in the name of T-1 (the "Initial Bond") will be prepared by McCall, Parkhurst & Horton L.L.P. and delivered to the Attorney General for approval. Upon approval by the Attorney General, the Initial Bond will be registered by the Comptroller of Public Accounts of the State of Texas and delivered by McCall, Parkhurst & Horton L.L.P. to Jose Gaytan at BOKF no later than December 21, 2016.

B. BOKF will hold the Bonds on behalf of The Depository Trust Company ("DTC") pursuant to DTC's fast delivery procedures.

**II. Transfer of Surplus Funds.**

A. On or before December 22, 2016, the District's bookkeeper, Bott & Douthitt, will transfer \$389,285.00 of surplus bond proceeds of the District ("Surplus Funds") as approved by the TCEQ Order from the District's TexPool account to BOKF, NA, ABA No. 103900036, Acct. No. 600024642, Acct. Name: Wealth Management, Re: Reunion Ranch WCID Unlimited Tax Bonds, Series 2016, Attn. Jose Gaytan (512) 813-2002, which is acting as the closing agent for the District.

**III. Transfers from Purchaser.**

A. Pursuant to the Official Bid Form accepted by the Board of Directors of Reunion Ranch Water Control and Improvement District (the "District"), RBC Capital Markets (the "Purchaser"), will wire on the Closing Date \$3,589,000.00, (representing the par amount of the Bonds of \$3,700,000.00, less a bid discount of \$111,000.00) to BOKF, ABA No. 103900036, Acct. No.: 600024642, Acct. Name: Wealth Management Account, Re: Reunion Ranch WCID Unlimited Tax Bonds, Series 2016, Attn. Jose Gaytan (512) 813-2002, which is acting as closing agent for the District.

**IV. Transfers from BOKF.**

The District's Board of Directors will review the report of reimbursable costs at a regular meeting on Monday, December 20, 2016. Subject to board approval of the report of reimbursable costs and after receipt of the bond proceeds from the Purchaser, BOKF is hereby directed to make the following wire transfers:

A. \$63,479.38 to the District's Capital Projects Fund Account, State Street Bank and Trust Company, Boston, MA, Amount (2000): \$63,479.38, BNF (4200) = Attn: TexPool # 67573774, RFB (4320) = Location ID # 79384, OBI (6000) = Pool # 449, Account #7938400007, Participant Name: Reunion Ranch Water Control & Improvement District, Account Name: SR2016 Capital Projects, ABA (3400) 011000028, which represents surplus funds of the District.

B. \$231,113.54 to the District's Debt Service Fund Account, State Street Bank and Trust Company, Boston, MA, Amount (2000): \$231,113.54, BNF (4200) = Attn: TexPool # 67573774, RFB (4320) = Location ID # 79384, OBI (6000) = Pool # 449, Account #7938400006, Participant Name: Reunion Ranch Water Control & Improvement District; Account Name: SR2016 Capitalized Interest, ABA (3400) 011000028 for capitalized interest on the Bonds.

C. \$60,738.47 to the District's Operating Account, State Street Bank and Trust Company, Boston, MA, Amount (2000): \$60,738.47, BNF (4200) = Attn: TexPool # 67573774, RFB (4320) = Location ID # 79384, OBI (6000) = Pool # 449, Account # 7938400001, Participant Name: Reunion Ranch Water Control & Improvement District, Account Name: Operating Account, ABA (3400) 011000028 to reimburse \$56,538.47 for bond application costs, \$3,700.00 for the Attorney General fee and \$500.00 for bond issuance costs.

D. \$3,482,930.00 to Taylor Morrison of Texas, Inc, Wells Fargo Bank, N.A., 420 Montgomery, San Francisco CA 94104 ABA No. 121000248, Credit Account: 2079900562172, Account Name: Taylor Morrison of Texas, Inc. - Austin, which represents developer reimbursement and developer interest.

E. \$60,436.00 to Specialized Public Finance Inc., Pioneer Bank, ABA/Routing Number 114994109, Account Holder Name – Specialized Public Finance Inc., Account Holder Address – 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, Account Number for Beneficiary - 2002079, which represents financial advisor fee in the amount of \$55,500.00, \$3,500.00 for preparation of offering documents, S&P Capital IQ LLC Cusip fees of \$686.00 and \$750.00 for miscellaneous expenses.

F. \$56,318.00 to McCall, Parkhurst & Horton L.L.P., PlainsCapital Bank, 325 N. St. Paul Street, Suite 800, Dallas, Texas 75201, 214/525-4651, ABA No. 1113-2299-4, Acct. No. 4000001208 (For Credit to: McCall, Parkhurst & Horton L.L.P. Operating Account), Reference No.: 4235.004- Reunion Ranch WCID Unlimited Tax Bonds, Series 2016, which represents bond counsel fee of \$46,250.00, a disclosure counsel fee of \$8,500.00, IRS Form 8038-G Tax Return Preparation of \$500.00, Texas Bond Review Board Form Preparation fee of \$500.00, Bond Preparation Fee of \$250.00 and publication costs of \$318.00, but excluding other out-of-pocket expenses to be billed later.

G. \$9,250.00 to the Texas Commission on Environmental Quality, Bank of America N.A., Austin, Texas, Acct. Name: Comptroller of Public Accounts, ABA No. 026009593, Acct. No. 6040070607, Attn: Kathaleen Ford-Smith (512) 397-2026, Acct. Type: Checking, Reference: Reunion Ranch WCID, Series 2016.

H. \$12,000.00 to Maxwell, Locke & Ritter LLP, c/o Frost National Bank, Routing No.: 114000093, Maxwell Locke & Ritter Operating Account No. 350007897, Invoice No.: 156950.

I. \$400.00 to be retained by BOKF for first year paying agent fees for the Bonds.

J. \$1,125.00 to Ipreo LLC c/o JPMorganChase, New York, NY, ABA# 021000021, Acct.# 066603161, SWIFT CODE: CHASUS33, ref.# 10030950, representing the electronic distribution of POS/OS.

K. \$494.61 to Island Financial Printing Resource, Inc. c/o Receiving Bank: Dubuque Bank and Trust Company - Dubuque, Iowa, ABA# 0739 0053 5, Beneficiary Bank Name: Morrill & Janes Bank - Merriam, Kansas, ABA# 101101950, Account # 620440, Invoice #9372, Contact: Vicki Kennamer, (800) 863-5611, representing the printing fees of OS.

**V. Release and Cancellation of Bonds.**

A. Immediately upon receipt of the proceeds referred to above, BOKF will cancel the Initial Bond. The Bonds having been held by BOKF will be released through DTC's fast delivery procedures through contacting DTC at (212) 898-3755.

B. Specialized Public Finance Inc. will return the good faith check to the Purchaser.

**REUNION RANCH WCID  
\$3,700,000 UNLIMITED TAX BONDS, SERIES 2016**

**DISTRIBUTION LIST**

**FINANCIAL ADVISOR**

**Garry Kimball**

Specialized Public Finance Inc.  
248 Addie Roy Road, Suite B-103  
Austin, Texas 78746  
512/275-7300  
512/275-7305 Fax  
[garry@spubfin.com](mailto:garry@spubfin.com)  
[jeff@spubfin.com](mailto:jeff@spubfin.com)  
[monica@spubfin.com](mailto:monica@spubfin.com)

**DEVELOPER**

**Polly Hagerty**

**Michael Slack**

Taylor Morrison  
11200 Lakeline Blvd., Suite 150A  
Austin, Texas 78717  
512/532-2131  
[PHagerty@taylormorrison.com](mailto:PHagerty@taylormorrison.com)  
[mslack@taylormorrison.com](mailto:mslack@taylormorrison.com)

**PURCHASER**

**Heather Davis**

RBC Capital Markets, LLC  
2800 Post Oak Blvd.  
Suite 4325  
Houston, Texas 77056  
713/651-3344  
[heather.davis@rbccm.com](mailto:heather.davis@rbccm.com)  
[MuniUWS@rbccm.com](mailto:MuniUWS@rbccm.com)

**ENGINEER**

**Dennis Lozano**

Murfee Engineering Company,  
Inc.  
1101 S. Capital of Texas Highway  
Suite D110  
Austin, Texas 78746  
512/327-9204  
512/327-2947 Fax  
[dlozano@murfee.com](mailto:dlozano@murfee.com)

**BOOKKEEPER**

**Allen Douthitt**

**Mary Bott**

Bott & Douthitt PLLC  
1930 Rawhide, Suite 310  
Round Rock, TX 78681

**Mailing Address:**

PO Box 2445  
Round Rock, TX 78680  
512/733-0700  
512/733-0704 Fax  
[allen@bottdouthitt.com](mailto:allen@bottdouthitt.com)  
[mary@bottdouthitt.com](mailto:mary@bottdouthitt.com)

**BOND/DISCLOSURE COUNSEL**

**Jana Edwards**

**Clayton Chandler**

**Jason Weinberg**

McCall, Parkhurst & Horton LLP  
600 Congress Avenue, Suite 1800  
Austin, Texas 78701  
512/478-3805  
[jedwards@mphlegal.com](mailto:jedwards@mphlegal.com)  
[cchandler@mphlegal.com](mailto:cchandler@mphlegal.com)  
[jweinberg@mphlegal.com](mailto:jweinberg@mphlegal.com)  
[vdimaria@mphlegal.com](mailto:vdimaria@mphlegal.com)

**GENERAL COUNSEL**

**Bill Flickinger**

**Jeniffer Concienne**

Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705  
512/476-6604  
[bflickinger@wfaustin.com](mailto:bflickinger@wfaustin.com)  
[jconcienne@wfaustin.com](mailto:jconcienne@wfaustin.com)

Reunion Ranch WCID UTB 2016  
Closing Memorandum  
December 22, 2016  
Page 6

FINAL

**PAYING AGENT/REGISTRAR**

**Jose Gaytan**

**Anne-Marie Hansen**

**Joan Roy**

BOKF, NA

100 Congress Avenue, Suite 250

Austin, Texas 78701

512/813-2002

[jgaytan@bankoftexas.com](mailto:jgaytan@bankoftexas.com)

[ahansen@bankoftexas.com](mailto:ahansen@bankoftexas.com)

[jroy@bankoftexas.com](mailto:jroy@bankoftexas.com)

**AUDITOR**

**Jimmy Romell**

Maxwell Locke & Ritter LLP

401 Congress Avenue, Suite 1100

Austin, Texas 78701

512/370-3200

[skrchnak@mlrpc.com](mailto:skrchnak@mlrpc.com)



**RECEIPT FOR PROCEEDS**

**THE STATE OF TEXAS** §  
**COUNTY OF HAYS** §  
**REUNION RANCH WATER CONTROL AND**  
**IMPROVEMENT DISTRICT** §

The undersigned hereby certifies as follows:

- (a) This certificate is executed and delivered with reference to:  
  
\$3,700,000 Reunion Ranch Water Control and Improvement District  
Unlimited Tax Bonds, Series 2016;
- (b) The undersigned is acting as Closing Agent on behalf of the Issuer of the Bonds;
- (c) The Bonds have been duly delivered to the purchasers thereof, namely:

**RBC CAPITAL MARKETS;**

- (d) We acknowledge the transfers and deposits in accordance with the Closing Instruction Memorandum dated December 22, 2016 relating to the Bonds.

**EXECUTED THIS 22<sup>nd</sup> day of December, 2016.**

**BOKF, NA,**

By: *Anne-Marie Hansen*  
Anne-Marie Hansen  
Title: Trust Officer

LAW OFFICES

**McCALL, PARKHURST & HORTON L.L.P.**

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: (512) 478-3805  
FACSIMILE: (512) 472-0871

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE: (214) 754-9200  
FACSIMILE: (214) 754-9250

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: (210) 225-2800  
FACSIMILE: (210) 225-2984

January 17, 2017

**VIA UPS 2ND DAY AIR #1Z56404W0293904998**

Internal Revenue Service Center  
1973 North Rulon White Boulevard  
Ogden, Utah 84201-1000

Re: Information Reporting - Tax-Exempt Bonds  
Reunion Ranch Water Control and Improvement District  
Unlimited Tax Bonds, Series 2016

Ladies and Gentlemen:

Pursuant to the requirements of Section 149(e) of the Internal Revenue Code of 1986, enclosed please find an original of Form 8038-G which is hereby submitted to you for the above-captioned bonds issued December 22, 2016.

Sincerely,

McCALL, PARKHURST & HORTON L.L.P.



Stefano Taverna

ST: vm

Enclosures

cc: Ms. Jana H. Edwards

Mr. Clayton C. Chandler

**Information Return for Tax-Exempt Governmental Obligations**

► Under Internal Revenue Code section 149(e)  
 ► See separate instructions.

OMB No. 1545-0720

Caution: If the issue price is under \$100,000, use Form 8038-GC.

<b>Part I Reporting Authority</b>		If Amended Return, check here <input type="checkbox"/>
1 Issuer's name <b>Reunion Ranch Water Control and Improvement District</b>		2 Issuer's employer identification number (EIN) <b>77-0673282</b>
3a Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions) <b>Bill Flickinger, Attorney for the District</b>		3b Telephone number of other person shown on 3a <b>(512) 476-6604</b>
4 Number and street (or P.O. box if mail is not delivered to street address) <b>c/o Willatt &amp; Flickinger, PLLC, 12912 Hill Country Boulevard</b>	Room/suite <b>F-232</b>	5 Report number (For IRS Use Only) <b>3</b>
6 City, town, or post office, state, and ZIP code <b>Austin, Texas 78738</b>		7 Date of issue <b>12/22/2016</b>
8 Name of issue <b>Unlimited Tax Bonds, Series 2016</b>		9 CUSIP number <b>76131M BY8</b>
10a Name and title of officer or other employee of the issuer whom the IRS may call for more information (see instructions) <b>None</b>		10b Telephone number of officer or other employee shown on 10a <b>N/A</b>

<b>Part II Type of Issue (enter the issue price). See the instructions and attach schedule.</b>		
11 Education . . . . .		11
12 Health and hospital . . . . .		12
13 Transportation . . . . .		13
14 Public safety . . . . .		14
15 Environment (including sewage bonds) . . . . .		15
16 Housing . . . . .		16
17 Utilities . . . . .		17 <b>3,699,943</b>
18 Other. Describe ►		18
19 If obligations are TANs or RANs, check only box 19a . . . . .	<input type="checkbox"/>	
If obligations are BANs, check only box 19b . . . . .	<input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box . . . . .	<input type="checkbox"/>	

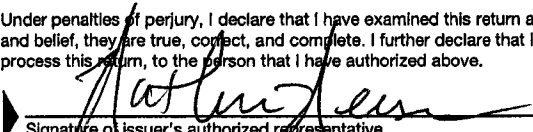
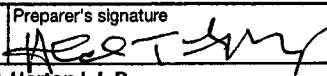
<b>Part III Description of Obligations. Complete for the entire issue for which this form is being filed.</b>					
	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	08/15/2041	\$ 3,699,943	\$ 3,700,000	15.08 years	3.9307 %

<b>Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)</b>					
22	Proceeds used for accrued interest . . . . .			22	-0-
23	Issue price of entire issue (enter amount from line 21, column (b)) . . . . .			23	3,699,943
24	Proceeds used for bond issuance costs (including underwriters' discount) . . . . .		24	255,704	
25	Proceeds used for credit enhancement . . . . .		25	-0-	
26	Proceeds allocated to reasonably required reserve or replacement fund . . . . .		26	-0-	
27	Proceeds used to currently refund prior issues . . . . .		27	-0-	
28	Proceeds used to advance refund prior issues . . . . .		28	-0-	
29	Total (add lines 24 through 28) . . . . .		29	255,704	
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here) . . . . .		30	3,444,239	

<b>Part V Description of Refunded Bonds. Complete this part only for refunding bonds.</b>		Not applicable
31	Enter the remaining weighted average maturity of the bonds to be currently refunded . . . . .	years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded . . . . .	years
33	Enter the last date on which the refunded bonds will be called (MM/DD/YYYY) . . . . .	
34	Enter the date(s) the refunded bonds were issued ► (MM/DD/YYYY)	

**Part VI Miscellaneous**

<b>35</b>	Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) . . . . .	<b>35</b>	-0-
<b>36a</b>	Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (GIC) (see instructions) . . . . .	<b>36a</b>	-0-
<b>b</b>	Enter the final maturity date of the GIC ▶ _____		
<b>c</b>	Enter the name of the GIC provider ▶ _____		
<b>37</b>	Pooled financings: Enter the amount of the proceeds of this issue that are to be used to make loans to other governmental units . . . . .	<b>37</b>	-0-
<b>38a</b>	If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the following information:		
<b>b</b>	Enter the date of the master pool obligation ▶ _____		
<b>c</b>	Enter the EIN of the issuer of the master pool obligation ▶ _____		
<b>d</b>	Enter the name of the issuer of the master pool obligation ▶ _____		
<b>39</b>	If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box . . . . .		<input checked="" type="checkbox"/>
<b>40</b>	If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box . . . . .		<input type="checkbox"/>
<b>41a</b>	If the issuer has identified a hedge, check here <input type="checkbox"/> and enter the following information:		
<b>b</b>	Name of hedge provider ▶ _____		
<b>c</b>	Type of hedge ▶ _____		
<b>d</b>	Term of hedge ▶ _____		
<b>42</b>	If the issuer has superintegrated the hedge, check box . . . . .		<input type="checkbox"/>
<b>43</b>	If the issuer has established written procedures to ensure that all nonqualified bonds of this issue are remediated according to the requirements under the Code and Regulations (see instructions), check box . . . . .		<input checked="" type="checkbox"/>
<b>44</b>	If the issuer has established written procedures to monitor the requirements of section 148, check box . . . . .		<input checked="" type="checkbox"/>
<b>45a</b>	If some portion of the proceeds was used to reimburse expenditures, check here <input type="checkbox"/> and enter the amount of reimbursement . . . . . ▶ _____		
<b>b</b>	Enter the date the official intent was adopted ▶ _____		

<b>Signature and Consent</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.			
	 Signature of issuer's authorized representative		12-22-16 Date	
<b>Paid Preparer Use Only</b>	Print/Type preparer's name Harold T. Flanagan		Preparer's signature 	
	Firm's name ▶ McCall, Parkhurst & Horton L.L.P.		Date 12-14-16	
	Firm's address ▶ 717 N. Harwood, Suite 900, Dallas, TX 75201		Check <input type="checkbox"/> if self-employed PTIN P01071147	
			Firm's EIN ▶ 75-0799392 Phone no. 214-754-9200	

**ISSUE PRICE CERTIFICATE**

The undersigned hereby certifies with respect to the sale of the Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016 (the "Bonds"), issued in the aggregate principal amount of \$3,700,000, as follows:

1. The undersigned is the duly authorized representative of the purchaser (the "Initial Purchaser") of the Bonds from the District.
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Initial Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Initial Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)
\$ 90,000	2018	1.50 %	\$ 155,000	2030	3.80 %
95,000	2019	1.75 %	160,000	2031	3.90 %
95,000	2020	2.0 %	170,000	2032	4.0 %
100,000	2021	2.25 %	175,000	2033	4.05 %
105,000	2022	2.50 %	185,000	2034	4.10 %
110,000	2023	2.75 %	190,000	2035	- %
115,000	2024	3.0 %	195,000	2036	- %
125,000	2025	3.20 %	200,000	2037	4.125 %
130,000	2026	3.40 %	205,000	2038	- %
135,000	2027	3.50 %	210,000	2039	- %
140,000	2028	3.60 %	215,000	2040	- %
145,000	2029	3.70 %	255,000	2041	4.25 %

5. In the case of the Retained Maturities, the Initial Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%Yield)
\$ -	2018	- %	\$ 155,000	2030	3.80 %
-	2019	- %	-	2031	- %
-	2020	- %	-	2032	- %
-	2021	- %	-	2033	- %
-	2022	- %	-	2034	- %
-	2023	- %	-	2035	- %
-	2024	- %	-	2036	- %
125,000	2025	3.20 %	-	2037	- %
130,000	2026	3.40 %	-	2038	- %
135,000	2027	3.50 %	-	2039	- %
-	2028	- %	-	2040	- %
145,000	2029	3.70 %	-	2041	- %

6. The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the District in connection with the issuance of the Bonds and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the district that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

EXECUTED and DELIVERED this 14<sup>th</sup> day of December, 2016.

Name of Purchaser or Manager  
Matthew Dustin  
 By: Matthew Dustin  
 Title: Vice President

# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 2

Complete Nos. 1 - 4 and 6 if there are interested parties. Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.	<b>OFFICE USE ONLY CERTIFICATION OF FILING</b>
<b>1 Name of business entity filing form, and the city, state and country of the business entity's place of business.</b> RBC Capital Markets, LLC Houston, TX United States	<b>Certificate Number:</b> 2016-136879  <b>Date Filed:</b> 11/15/2016
<b>2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.</b> Reunion Ranch WCID	<b>Date Acknowledged:</b> 11/16/2016

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**  
 Reunion Ranch WCID UTB2016-Bid  
 Municipal Bond Underwriting

4 Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
		Controlling	Intermediary
Jason Weinberg, Disclosure Counsel	Austin, TX United States		X
Clayton Chandler, Disclosure Counsel	Austin, TX United States		X
RBC USA Holdco Corporation	Wilmington, DE United States	X	
Cathleen Tobin, Director	Minneapolis, MN United States	X	
Thomas Sagissor, Director	Minneapolis, MN United States	X	
A. Douglas McGregor, Director	Toronto Ontario Canada	X	
V. Troy Maxwell, Director	Toronto Ontario Canada	X	
Clinton Lively, Director	New York, NY United States	X	
Blair Fleming, Director	New York, NY United States	X	
Marc Greer, Director	Houston, TX United States		X
Jana Edwards, Disclosure Counsel	Austin, TX United States		X
McCall Parkhurst & Horton LLP	Austin, TX United States		X

# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

2 of 2

Complete Nos. 1 - 4 and 6 if there are interested parties.  
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY  
 CERTIFICATION OF FILING**

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**  
 RBC Capital Markets, LLC  
 Houston, TX United States

**Certificate Number:**  
 2016-136879

**Date Filed:**  
 11/15/2016

**Date Acknowledged:**  
 11/16/2016

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**  
 Reunion Ranch WCID

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**  
 Reunion Ranch WCID UTB2016-Bid  
 Municipal Bond Underwriting

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

**5 Check only if there is NO Interested Party.**

**6 AFFIDAVIT** I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.

\_\_\_\_\_  
 Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said \_\_\_\_\_, this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, to certify which, witness my hand and seal of office.

\_\_\_\_\_  
 Signature of officer administering oath      Printed name of officer administering oath      Title of officer administering oath

# CERTIFICATE OF INTERESTED PARTIES

**FORM 1295**

1 of 2

Complete Nos. 1 - 4 and 6 if there are interested parties.  
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY  
CERTIFICATION OF FILING**

**Certificate Number:**  
2016-136879

**Date Filed:**  
11/15/2016

**Date Acknowledged:**

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**

RBC Capital Markets, LLC  
Houston, TX United States

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**

Reunion Ranch WCID

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**

Reunion Ranch WCID UTB2016-Bid  
Municipal Bond Underwriting

4 Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
		Controlling	Intermediary
Jason Weinberg, Disclosure Counsel	Austin, TX United States		X
Clayton Chandler, Disclosure Counsel	Austin, TX United States		X
RBC USA Holdco Corporation	Wilmington, DE United States	X	
Cathleen Tobin, Director	Minneapolis, MN United States	X	
Thomas Sagissor, Director	Minneapolis, MN United States	X	
A. Douglas McGregor, Director	Toronto Ontario Canada	X	
V. Troy Maxwell, Director	Toronto Ontario Canada	X	
Clinton Lively, Director	New York, NY United States	X	
Blair Fleming, Director	New York, NY United States	X	
Marc Greer, Director	Houston, TX United States		X
Jana Edwards, Disclosure Counsel	Austin, TX United States		X
McCall Parkhurst & Horton LLP	Austin, TX United States		X



# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

2 of 2

Complete Nos. 1 - 4 and 6 if there are interested parties.  
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

### OFFICE USE ONLY CERTIFICATION OF FILING

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**  
RBC Capital Markets, LLC  
Houston, TX United States

Certificate Number:  
2016-136879

Date Filed:  
11/15/2016

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**  
Reunion Ranch WCID

Date Acknowledged:

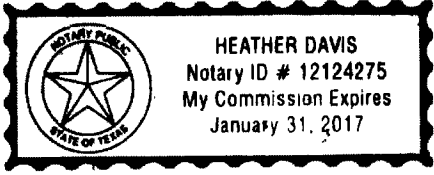
**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**  
Reunion Ranch WCID UTB2016-Bid  
Municipal Bond Underwriting

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

**5 Check only if there is NO Interested Party.**

**6 AFFIDAVIT**

I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.



AFFIX NOTARY STAMP / SEAL ABOVE

*Heather Davis*  
\_\_\_\_\_  
Signature of authorized agent of contracting business entity

Sworn to and subscribed before me, by the said Matthew Dustin, this the 15<sup>TH</sup> day of November 2016, to certify which, witness my hand and seal of office.

*Heather Davis*  
\_\_\_\_\_  
Signature of officer administering oath

Heather Davis  
\_\_\_\_\_  
Printed name of officer administering oath

Notary  
\_\_\_\_\_  
Title of officer administering oath



# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties. Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.	<b>OFFICE USE ONLY</b>
<b>1 Name of business entity filing form, and the city, state and country of the business entity's place of business.</b> BOKF, NA (Bank of Texas) Austin, TX United States	<b>CERTIFICATION OF FILING</b>  Certificate Number: 2016-136935  Date Filed: 11/15/2016  Date Acknowledged: 11/29/2016
<b>2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.</b> Reunion Ranch Water Control and Improvement District	

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**  
 Reunion Ranch WCID UTB2016-PAR  
 Paying Agent/Registrar Services

4 Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
		Controlling	Intermediary
BOKF, NA	Austin, TX United States		X
Gaytan, Jose	Austin, TX United States		X
Hansen, Anne-Marie	Austin, TX United States		X

**5 Check only if there is NO Interested Party.**

**6 AFFIDAVIT** I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.

\_\_\_\_\_

Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said \_\_\_\_\_, this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, to certify which, witness my hand and seal of office.

\_\_\_\_\_  
 Signature of officer administering oath      Printed name of officer administering oath      Title of officer administering oath

# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.  
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

## OFFICE USE ONLY CERTIFICATION OF FILING

Certificate Number:  
2016-136935

Date Filed:  
11/15/2016

Date Acknowledged:

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**

BOKF, NA (Bank of Texas)  
Austin, TX United States

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**

Reunion Ranch Water Control and Improvement District

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**

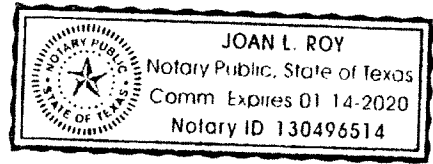
Reunion Ranch WCID UTB2016-PAR  
Paying Agent/Registrar Services

4 Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
		Controlling	Intermediary
BOKF, NA	Austin, TX United States		X
Gaytan, Jose	Austin, TX United States		X
Hansen, Anne-Marie	Austin, TX United States		X

5 Check only if there is NO interested Party.

**6 AFFIDAVIT**

I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.



*[Handwritten Signature]*  
Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said Jose Gaytan, this the 15<sup>th</sup> day of November, 2016, to certify which, witness my hand and seal of office.

*[Handwritten Signature]*  
Signature of officer administering oath

Joan L. Roy  
Printed name of officer administering oath

Notary Public  
Title of officer administering oath

**SPECIMEN**

**UNITED STATES OF AMERICA  
STATE OF TEXAS**

**REUNION RANCH WATER CONTROL AND IMPROVEMENT DISTRICT  
UNLIMITED TAX BOND  
SERIES 2016**

**NO. R-1**

**PRINCIPAL  
AMOUNT  
\$90,000**

<u>INTEREST RATE</u>	<u>DATE OF BONDS</u>	<u>MATURITY DATE</u>	<u>CUSIP NO.</u>
<b>3.000%</b>	<b>November 15, 2016</b>	<b>August 15, 2018</b>	<b>76131MAZ6</b>

**REGISTERED OWNER: CEDE & CO.**

**PRINCIPAL AMOUNT: NINETY THOUSAND DOLLARS**

**ON THE MATURITY DATE** specified above, Reunion Ranch Water Control and Improvement District (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "Registered Owner") the principal amount set forth above, and to pay interest thereon calculated on the basis of a 360 day year of twelve 30 day months, from the date of initial delivery of the Bonds, on November 15, 2016, and semiannually on each February 15 and August 15 thereafter (an "Interest Payment Date") to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the Interest Payment Date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date, in which case such principal amount shall bear interest from such next following Interest Payment Date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

# SPECIMEN

"Registrar" or "Paying Agent/Registrar" for this Bond at its designated office for payment in Austin, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each Interest Payment Date by check or draft, dated as of such Interest Payment Date, drawn by the Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Registrar by United States mail, first-class postage prepaid, on or before each such Interest Payment Date, to the Registered Owner hereof, at its address as it appeared on the last calendar day of the month (whether or not a business day) next preceding each such date (the "Record Date") on the Register kept by the Registrar listing the names and addresses of the Registered Owners (the "Register"). In addition, interest may be paid by such other method, acceptable to the Registrar, requested by, and at the risk and expense of, the Registered Owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar days after the Special Record Date) shall be sent at least 5 business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Registered Owner as it appears on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

**DURING ANY PERIOD** in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the District and the securities depository.

**ANY ACCRUED INTEREST** due at maturity or upon the redemption of this Bond prior to maturity as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the Registered Owner of this Bond that on or before each principal payment date, interest payment date, and any redemption date for this Bond it will make available to the Registrar, from the "Debt Service Fund" the creation of which is affirmed by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

**IF THE DATE** for any payment due on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the designated office for payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

# SPECIMEN

**THIS BOND** is one of a series of Bonds dated as of November 15, 2016 and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of **\$3,700,000 PURSUANT TO THE BOND ELECTION AND COMMISSION ORDER FOR THE PURPOSE OF FINANCING THE DISTRICT'S SHARE OF: (I) CONSTRUCTION COSTS ASSOCIATED WITH A WASTEWATER TREATMENT PLANT IN REUNION RANCH PHASE 1A; (II) WATER, WASTEWATER AND DRAINAGE FACILITIES TO SERVE SINGLE-FAMILY AND COMMON AREA DEVELOPMENT IN REUNION RANCH PHASE 1B AND 1C; (III) CAPITALIZING APPROXIMATELY TWENTY-FOUR MONTHS' INTEREST REQUIREMENTS ON THE BONDS; (IV) PAYING DEVELOPER INTEREST; (V) PAYING CERTAIN ENGINEERING COSTS AND (VI) PAYING COSTS ASSOCIATED WITH THE ISSUANCE OF THE BONDS.**

**ON AUGUST 15, 2023 OR ON ANY DATE THEREAFTER**, the Bonds maturing on and after August 15, 2024 may be redeemed prior to their scheduled maturities, at the option of the District, with funds derived from any available and lawful source, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption as a whole, or from time to time in part, and, if in part, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity is to be redeemed the Registrar shall determine by lot the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of \$5,000 of principal amount).

**THE BONDS MATURING ON** August 15, 2037 and August 15, 2041 are subject to mandatory sinking fund redemption by lot prior to maturity in the following amounts on the following dates and at a price of par plus accrued interest to the redemption date ("Term Bonds").

**Term Bonds Maturing on August 15, 2037\***

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2035	\$ 190,000
August 15, 2036	195,000
August 15, 2037	200,000

\*Stated Maturity

**Term Bonds Maturing on August 15, 2041\***

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2038	\$ 205,000
August 15, 2039	210,000
August 15, 2040	215,000
August 15, 2041	255,000

\*Stated Maturity

# SPECIMEN

**THE PRINCIPAL AMOUNT** of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

**AT LEAST 30** calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Registrar by United States mail, first-class postage prepaid, to the Registered Owner of each Bond to be redeemed at its address as it appeared on the Register on the 45th calendar day prior to such redemption date at least 30 days prior to the date fixed for redemption and to major securities depositories and bond information services. By the date fixed for any such redemption due provision shall be made with the Registrar for the payment of the required redemption price for the Bonds or portions for which such payment is made, all as provided above. The Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the Registered Owner to receive the redemption price from the Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any authorized denomination or denominations, at the written request of the Registered Owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the District, all as provided in the Bond Order.

**WITH RESPECT TO** any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice shall state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

**ALL BONDS OF THIS SERIES** are issuable solely as fully registered Bonds, without interest coupons, in the principal denomination in the case of the Bonds, of any integral multiple



# SPECIMEN

of \$5,000. As provided in the Bond Order, this Bond may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate Registered Owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the Registered Owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the Registered Owner. The Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Registrar shall not be required to make any such transfer, conversion or exchange of any Bond or any portion thereof (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or Interest Payment Date or (ii) within 45 calendar days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the Registered Owner of the unredeemed balance hereof in the event of its redemption in part.

**WHENEVER** the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

**IN THE EVENT** any Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the Registered Owners of the Bonds.

**THE BONDS** are payable from the proceeds of an ad valorem tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts. The Bond Order further provides that the pledge of taxes, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or Defeasance Securities are deposited with or made

# SPECIMEN

available to the Registrar in accordance with the Bond Order or (ii) a city dissolves the District, and assumes the obligations of the District pursuant to existing Texas law.

**THE BONDS** are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date with respect to the Bonds, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Bond Order. Reference is hereby made to the Bond Order for provisions with respect to the operation and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the Registered Owners of the Bonds. By acceptance of this Bond the Registered Owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

**THE OBLIGATION** to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the Registered Owner of this Bond.

**THE DISTRICT RESERVES THE RIGHT** to issue additional bonds heretofore or hereafter duly authorized at elections held in the District payable from a lien on and pledge of taxes; revenue bonds, notes and other obligations payable solely from revenues of the District or revenues to be received under contracts with other persons, including private corporations, municipalities and political subdivisions or from any other source. The District further reserves the right to issue refunding bonds in any manner permitted by law to refund any bonds (including the Bonds) at or prior to their respective dates of maturity or redemption.

**TO THE EXTENT** permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the Registered Owners of the Bonds may be modified with, in certain circumstances, the consent of the Registered Owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the Registered Owners of all of the Bonds affected, no such modification shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond,

**SPECIMEN**

or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

**THIS BOND** shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Registrar.

**IT IS FURTHER CERTIFIED** that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

**IT IS HEREBY CERTIFIED, COVENANTED, AND REPRESENTED** that all acts, conditions, and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form, and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

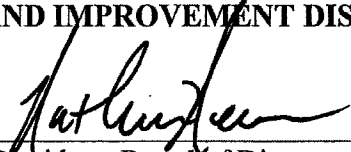
**SPECIMEN**

**IN WITNESS WHEREOF**, the District has caused this Bond to be signed with the manual or facsimile signature of the President or Vice President of the Board of Directors of the District and countersigned with the manual or facsimile signature of the Secretary or Assistant Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

**REUNION RANCH WATER CONTROL  
AND IMPROVEMENT DISTRICT**



Secretary, Board of Directors



President, Board of Directors

(SEAL)



**SPECIMEN**

**PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE  
(To be executed if this Bond is not accompanied by an  
executed Registration Certificate of the Comptroller  
of Public Accounts of the State of Texas)**

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds, or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated:

**BOKF, NA**  
Registrar

By \_\_\_\_\_  
Authorized Representative

**SPECIMEN**

**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto

---

Please insert Social Security or Taxpayer  
Identification Number of Transferee

---

(Please print or typewrite name and address,  
including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints  
\_\_\_\_\_, attorney, to register the transfer of the  
within Bond on the books kept for registration thereof, with full power of substitution in the  
premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed  
by a member firm of the New York Stock  
Exchange or a commercial bank or trust  
company.

NOTICE: The signature above must  
correspond with the name of the Registered  
Owner as it appears upon the front of this  
Bond in every particular, without alteration or  
enlargement or any change whatsoever.



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants  
An Affiliate of CPAmerica International  
Tel: (512) 370-3200 Fax: (512) 370-3200  
www.mlrpa.com

Austin 300 Congress Avenue, Suite 1100  
Austin, TX 78701

Round Rock 200 East Main Street  
Round Rock, TX 78664

November 9, 2016

Board of Directors  
Reunion Ranch Water Control and Improvement District  
c/o Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705

Specialized Public Finance, Inc.  
248 Addie Roy Road, Suite B-103  
Austin, Texas 78746

**Re: \$3,700,000 Reunion Ranch Water Control and Improvement District  
Unlimited Tax Bonds, Series 2016**

Ladies and Gentlemen:

This letter acknowledges the consent to the publication of the audit of the captioned District, for the year ended September 30, 2015, performed by this firm and the agreement of the undersigned to the use of its name in the Preliminary Official Statement, dated November 1, 2016, and the final Official Statement to be prepared, as supplemented, completed or amended, relating to the captioned series of Bonds. In particular, the name of this firm is authorized to be used under the heading "OFFICIAL STATEMENT - CONSULTANTS" and in "Appendix A - Excerpts from the Annual Financial Report."

Sincerely,

Maxwell Locke & Ritter LLP  
Certified Public Accountants

Affiliated Company  
ML&R WEALTH MANAGEMENT LLC  
"A Registered Investment Advisor"  
Tax ID: 51-0000000 CPA firm





**Austin Division**

11200 Lakeline Blvd  
Suite 150A  
Austin, TX 78717  
p. (512) 328-8866  
f. (512) 328-7988  
taylormorrison.com

November 9, 2016

Board of Directors  
Reunion Ranch Water Control and Improvement District  
c/o Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705

Specialized Public Finance, Inc.  
248 Addie Roy Road, Suite B-103  
Austin, Texas 78746

**Re: \$3,700,000 Reunion Ranch Water Control and Improvement District Unlimited  
Tax Bonds, Series 2016**

Ladies and Gentlemen:

In connection with the issuance and sale by Reunion Ranch Water Control and Improvement District (the "District") of its Unlimited Tax Bonds, Series 2016 (the "Bonds"), Taylor Morrison of Texas, Inc., a Texas corporation, ("Taylor Morrison" or the "Developer") has, among other things, participated in the preparation of certain portions of the Preliminary Official Statement, dated November 1, 2016, and certain portions of the final Official Statement to be prepared (collectively, the Preliminary Official Statement and the Official Statement are referred to as the "Official Statement"), as hereinafter described, to be distributed in connection with the public offering and sale of the Bonds. Any capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in the Official Statement. Taylor Morrison is a principal owner of property within the District. Taylor Morrison is executing and delivering this Letter of Representation in connection with the provision of the information described in Exhibit A and the distribution and consummation of the sale of the Bonds by the District to the initial purchasers thereof (the "Underwriters").

1. Taylor Morrison hereby acknowledges receipt of a copy of the Official Statement and hereby approves the inclusion therein of the information, specified in Exhibit A hereto in connection with the distribution thereof.

2. Taylor Morrison represents as follows:

- (a) To the best of Taylor Morrison's knowledge, after due inquiry, at the date hereof and on the date of actual delivery of the Bonds to the Underwriters against payment therefor (the "Closing Date"), the information, relating solely to Taylor Morrison, contained in the Official Statement specified in Exhibit A hereto is and will be true and correct in all material respects and does not and will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition, for a period of 90 days after the Closing Date, we will promptly advise you in writing of facts which would require material correction or additions to such information and of which the undersigned became aware.
- (b) At the date hereof and on the Closing Date, to the best of the knowledge of Taylor Morrison, having undertaken no independent investigation, with respect to the information contained in the Official Statement (other than that referred to in paragraph 2(a) above), Taylor Morrison has no reason to believe such information is not true and correct in all material respects and contains any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In addition, for a period of 90 days after the Closing Date, we will promptly advise you in writing of facts which would require material correction or additions to such information and of which the undersigned became aware.
- (c) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court or public board pending against Taylor Morrison, nor, to the best of the knowledge of the officer signing on behalf of Taylor Morrison, is there any basis therefor, wherein an unfavorable decision, ruling or finding would, in any material respect, adversely affect the undersigned's development or sale of property in the District as described in the Official Statement or which, in any way, would adversely affect the information, specified in Exhibit A or the validity or enforceability of the Bonds or this Letter of Representation.
- (d) Taylor Morrison has full power and authority to execute this Letter of Representation, and such instrument has been duly authorized, executed and delivered and is legal, valid and binding instrument in accordance with its terms.
- (e) To the best of Taylor Morrison's knowledge, after due inquiry, at the Closing Date, this Letter of Representation will be the legal, valid and binding obligation of Taylor Morrison in accordance with its terms and the execution and delivery of this Letter of Representation and compliance with the provisions thereof will not result in a violation of the articles of incorporation, partnership agreement, bylaws or other organizational agreement of Taylor Morrison. To the best of Taylor Morrison's knowledge, without due inquiry, at the Closing Date, this Letter of Representation and compliance with the provisions thereof will not result in the violation of any of the terms or provisions of any indenture, mortgage, deed of trust, commitment,

agreement or other instrument to which Taylor Morrison is a party or by which they are bound, or any order, rule, regulation or law applicable to either of the undersigned of any court or any Federal or State regulatory body or administrative agency or other governmental body having jurisdiction over either of the undersigned or their properties.

3. During such period (not to exceed 90 days after the Closing Date) as you believe delivery of the Official Statement is necessary or desirable in connection with sale of the Bonds, if any event shall occur as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements, specified in Exhibit A hereto, in the light of the circumstances when the Official Statement is delivered to a purchaser, not misleading, insofar as such statements relate to the undersigned or any other information specified in Exhibit A hereto and furnished by the undersigned to the District or the Underwriters, Taylor Morrison will forthwith furnish to the District the information necessary for you to prepare either amendments to the Official Statement or supplemental information so that the statements in the Official Statement as specified in Exhibit A hereto will not, in the light of the circumstances when the Official Statement as so amended or supplemented is delivered to a purchaser, be misleading.


4. The agreements contained herein and the representations of Taylor Morrison set forth in this Letter of Representation shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the District or the Underwriters or any person controlling either of them and (ii) acceptance of and payment for the Bonds.

5. This Letter of Representation is made solely for your benefit and the benefit of persons, if any, controlling either of you and your respective successors and assigns, and no other person, partnership, association, corporation or governmental body shall acquire or have any right hereunder or by virtue hereof. The terms "successors" and "assigns" shall not include any purchaser of Bonds merely because of such purchase.

6. This Letter of Representation shall be governed by and construed in accordance with the laws of the State of Texas.

Very truly yours,

**TAYLOR MORRISON OF TEXAS, INC.,**  
a Texas corporation

By:   
Michael Slack, Vice President

## **EXHIBIT A**

The information contained in the Official Statement relating under the following entitled sections and limited to any referenced subsection:

1. "OFFICIAL STATEMENT SUMMARY - THE DISTRICT - The Developer,"  
"Development Within the District" and " - Homebuilders"
2. "THE DISTRICT - Current Status of Development"
3. "THE DEVELOPER"





**Murfee Engineering Company**

November 15<sup>th</sup>, 2016

Board of Directors  
Reunion Ranch Water Control and Improvement District  
c/o Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705

Specialized Public Finance, Inc.  
248 Addie Roy Road, Suite B-103  
Austin, Texas 78746

**Re: \$3,700,000 Reunion Ranch Water Control and Improvement District Unlimited Tax Bonds, Series 2016**

Ladies and Gentlemen:

The undersigned on behalf of Murfee Engineering Company, Inc. ("Murfee Engineering Company") Austin, Texas, Engineer for Reunion Ranch Water Control & Improvement District (the "District"), does hereby represent the following:

1. The undersigned has met the requirements for practicing as a consulting engineer in the State of Texas, as has the firm of Murfee Engineering Company, Inc., which firm has been duly employed as the Engineer for the District.

2. Murfee Engineering Company has supplied certain information contained in the Preliminary Official Statement, dated November 1, 2016, and the final Official Statement to be prepared (collectively, the "Official Statement"), relating to the District's issuance of the captioned Bonds. The information we have provided or reviewed is located in the following portions of the Official Statement.

- (a) Information under the heading "OFFICIAL STATEMENT SUMMARY – THE DISTRICT - Location" and "- Development Within the District."
- (b) Information under the first sentence of the second paragraph under the heading "THE BONDS- Issuance of Additional Debt."
- (c) Information under the heading "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (d) Information under the heading "RISK FACTORS - Future Debt" (regarding developer reimbursements).

- (e) Information under the heading "THE DISTRICT – GENERAL," " - Consultants – Engineer," "- LOCATION," "- UNDEVELOPED ACREAGE," " - CURRENT STATUS OF DEVELOPMENT" and " - FUTURE DEVELOPMENT."
- (f) Information under the heading "THE SYSTEM" (excluding "Water, Wastewater and Drainage Operations Rate and Fee Schedule – Table 1" and "Operating Revenues and Expenses Statement – Table 2").


3. To the best of our professional knowledge and belief, as of the date hereof, the sections of the Official Statement described above do not contain an untrue statement of a material fact as to engineering information and data set forth therein, and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

4. We have also generally reviewed and discussed the other information in the Official Statement and have participated in conferences with representatives of the District. We cannot, of course make any representation to you as to the accuracy or completeness of statements of fact contained in such other information, nor have we made any investigation as to the accuracy or completeness of such other information. Nothing, however, has come to our attention that would lead us to believe the Official Statement contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

5. We agree to the use of the name of our firm in the Official Statement of the Bonds, and in particular to the description of said firm and its professional employees as experts appearing under the headings "THE DISTRICT - Consultants" and "OFFICIAL STATEMENT – PREPARATION."

6. We agree that to the best of our ability, we will inform you immediately should we learn of any event(s) or information of which you are not aware subsequent to the date of this certificate and prior to the actual time of delivery of the bonds which would render any such information in the Official Statement untrue, incomplete, or incorrect, in any material fact or render any statement in such document materially misleading.

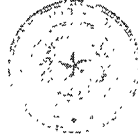
**MURFEE ENGINEERING COMPANY, INC.**

By:   
Title: District Engineer





Hays County Tax Assessor-Collector  
Luanne Caraway, PCAC, CTOP, PCC



712 S. Stagecoach Trail  
Suite 1120  
San Marcos, TX 78666  
(512) 393-5545

November 9, 2016

Board of Directors  
Reunion Ranch Water Control and Improvement District  
c/o Willatt & Flickinger  
2001 North Lamar  
Austin, Texas 78705

Specialized Public Finance, Inc.  
248 Addie Roy Road, Suite B-103  
Austin, Texas 78746

**Re: \$3,700,000 Reunion Ranch Water Control and Improvement District  
Unlimited Tax Bonds, Series 2016**

Ladies and Gentlemen:

The undersigned Tax Assessor-Collector for the Reunion Ranch Water Control & Improvement District (the "District"), does hereby represent the following:

1. I have supplied certain information contained in the Preliminary Official Statement dated November 1, 2016, and the final Official Statement to be prepared (collectively, the "Official Statement") relating to the District's issuance of bonds described above. The information I have provided is located in the following portions of the Official Statement:

- (a) Information as to the 2014, 2015 and 2016 Certified Assessed Valuation, Estimated Taxable Assessed Valuation, historical tax collections and tax rates under the headings "SELECTED FINANCIAL INFORMATION," "FINANCIAL STATEMENT," and "TAX DATA."
- (b) Information under the subheading "Table 8 – Tax Collections" under the heading

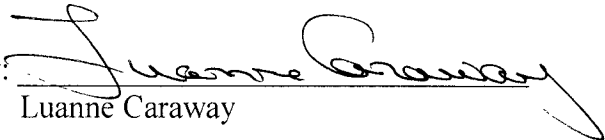
"TAX DATA."

- (c) Information under the subheading "*Tax Assessor/Collector*" under the heading "THE DISTRICT — *Consultants*."

2. To the best of my professional knowledge and belief, as of the date hereof, the sections of the Official Statement described above do not contain an untrue statement of a material fact as to information and data set forth therein, and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

3. I agree that to the best of my ability, I will inform you immediately should I learn of any event(s) or information of which you are not aware subsequent to the date of this certificate and prior to the actual time of delivery of the bonds which would render any such information in the Official Statement untrue, incomplete or incorrect, in any material fact or render any statements in such document materially misleading.

**HAYS COUNTY TAX ASSESSOR**

By:   
Luanne Caraway