MEMORANDUM

To: Allen Bogard, City Manager

Via: Jennifer Brown, Director of Finance

From: Justin Aldrete, Budget Officer

Date: August 4, 2017

Subject: Fort Bend County Municipal Utility District No. 128
$17,450,000 Unlimited Tax Bonds, Series 2017

Fort Bend County Municipal Utility District No. 128, a wholly incorporated District within the City extraterritorial jurisdiction, is presenting to the Mayor and City Council for consideration and approval of the proposed sale of $17,450,000 of Unlimited Tax Bonds, Series 2017.

The City's Code of Ordinances, Sec. 5-237 applies to this district: "any district to be created in within the City of Sugar Land or its extraterritorial jurisdiction must, as a condition of its creation, comply with written policies adopted by the City Council."

On March 15, 2011 City Council Policy 5000-03: **CREATION, OPERATIONS, AND DISSOLUTION OF SPECIAL PURPOSE DISTRICTS LOCATED WITHIN THE CITY OF SUGAR LAND OR ITS EXTRATERRITORIAL JURISDICTION** was adopted by Resolution No. 11-07. State law gives the City Council authority over the creation, operations, and dissolution of special purpose districts. This policy sets forth the requirements that Council will exercise over special purpose districts.

Section I of the policy referenced above applies to ETJ Districts. Under D. Conditions for City Consent, the City imposes the following requirements as conditions of the City's consent.

1. All bonds, which shall be and remain obligations of the District until its dissolution, must be approved by the City Council. The City Council may refuse to give its approval to the issuance of bonds – or limit the amount of bonds issued by the District – if the District is not in compliance with the City's requirements contained in the consent resolution or ancillary documents. The City will request compliance with the following terms and reporting requirements:

    a. The District's initial bond debt maturity date will not exceed 25 years. Once the District has established a maturity date for its initial bonds, the maturity date for any additional bonds will not extend beyond the maturity date for the initial bonds, without the approval of the City.

Note: Given the significant increase in the size of the district through annexation of MUD 126 & 127 area, the potential length of the development time frame could place the district in a bad position if the City were to limit to the current maturity date of 2036. If the development were to have occurred *within three separate districts as originally planned, there would have been opportunities to reset the final maturity as each district developed and issued bonds to reimburse the developers. Since the SPA provides that the City can leave the district in place for financing purposes after annexation, the extension of the debt repayment schedule is not a significant concern, as the City cannot annex the area until it is 90% developed.*

b. The amount of each annual principal payment on bond debt should be substantially the same or only moderately increased throughout the repayment term. In any case, at least 40% of the principal must be repaid in the first half of the repayment schedule, unless a portion of the bonds are structured as capital appreciation bonds.

Note: As long as the district proposal is reasonable, staff is good with the district's request for level debt service, or any maturity schedule that would result in a slightly declining debt service payment, given the early stage of development, limited financial resources of the district and the TCEQ financial feasibility rules. Level or declining debt service schedules will result in a consistent tax impact and allow future development to support additional bond issues as long as the proposed maturity schedule isn't back loaded.

c. The District may not fund more than 24 months of capitalized interest in a bond issue.

d. The City may limit a MUD to only issue bonds for the purposes of providing water, wastewater and drainage improvements

e. The City may approve the issuance of District bonds for park or road improvements if the park or road improvements for which the bonds are issued are included in the City's master plans.

f. At least 30 days before the issuance of bonds, except refunding bonds, the District's financial advisor shall certify in writing that bonds are being issued within the existing economic feasibility guidelines established by the TCEQ - whether or not the District has been approved by the TCEQ. The report, provided to the City Manager, should also state the following:

    i. The amount of bonds being proposed for issuance,
    ii. The projects to be funded by such bonds,
    iii. The proposed debt service tax rate after issuance of the bonds.

Note: Prior to sale of bonds, a district must obtain prepare a bond application and receive approval from TCEQ to ensure that financing meets all rules of TCEQ for financial feasibility (see below), construction requirements, capacity requirements (a process that can take from two months to a year after the bond application is filed with the TCEQ); and once bond are approved by the TCEQ, bonds can be sold only through the competitive bidding process. The district proposes to involve the City in review of proposed bond issues much earlier in the process to allow the City's input on structure of the bond issue.

g. Within 30 days after the District closes the sale of a series of bonds, the District shall deliver to the City Manager a copy of the final official statement for such series of bonds as well as any additional information requested by the City.

2. The City shall require that the owner of the real property over which the District will be created to enter into a written City contract for the City to provide water and wastewater services to the District and that the District accept, after its creation, the water and wastewater service contract agreed upon between the City and the owner. The District must pay all applicable connection fees. All District utility infrastructure must be designed and constructed as a part of the City's regional utility system and in compliance with the City's Water Master Plan and Wastewater Master Plan.

3. District infrastructure shall be constructed in accordance with City design standards. The City reserves the right to inspect all facilities being constructed by or on behalf of the District and to charge inspection fees required by ordinance.

4. The District will not drill wells without specific approval by the City as provided in the City's Code of Ordinances. If the District receives approval from the City to create ground wells, for potable or non-potable water production, or if the District plans to employ reuse water, originating from inside or outside the District, for the purposes of landscape irrigation or filling amenity ponds, the District will take part in the City's Groundwater Reduction Plan. Any subsidence district credits earned in the District will be owned by the GRP Administrator, the City of Sugar Land.

5. A district may not annex additional land into the District unless the City Council first adopts a resolution giving its consent to the annexation. The conditions contained in the resolution consenting to the creation of the District also apply to the land annexed, unless the resolution approving the District's annexation of additional land states otherwise. Conversely, the District may not enter into an agreement to be annexed, in whole or in part, with another district or municipality, without written authorization from the City of Sugar Land.

6. A District may not provide water or wastewater service outside the boundaries of the District. Conversely, the District may not enter into an agreement with another district or municipality to receive water and wastewater services.

7. The District shall send a copy of the order or other action setting an ad valorem tax rate to the City Secretary, City Finance Director and the City Manager within 30 days after District adoption of the rate.

8. The District shall send a copy of its annual audit to the City Finance Director and City Manager. The District will also ensure that they are meeting accounting standards set by the Governmental Accounting Standards Board (GASB), and they are fulfilling all arbitrage compliance reports to the satisfaction of the City Finance Director.

9. The District shall provide copies of any material event notices filed under applicable federal securities laws or regulations to the City Manager within thirty (30) days after filing such notices with the applicable federal agency.

10. The District will not own any facilities without the City's written approval. The District will finance water, wastewater, and drainage facilities and convey them to the City, upon completion of construction, for operation and maintenance.

11. The District will not incur operating expenses, other than administrative operating expenses, without the City's specific written authorization.

Prior to the sale of these bonds, the District must obtain a letter from the Mayor to the effect that the District is in compliance with appropriate clauses of Chapter 5 of the Code of Ordinances. In addition, the Mayor must also provide a letter to the Attorney General of the State of Texas approving the form of the resolution or order of the board of directors authorizing the issuance of any bonds of the District absent the interest rates and sales price of the proposed bonds.

Presented below is the information regarding the District and the proposed bonds, as provided in the Preliminary Official Statement:

<table>
<tr><td>District Creation</td><td>The District was created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated January 17, 2006.</td></tr>
<tr><td>Location</td><td>The District is located in the southwest portion of Fort Bend County approximately 21 miles southwest from downtown Houston, Texas. The District lies entirely within the extraterritorial jurisdiction of the City of Sugar Land (“Sugar Land” or the “City”) with the exception of approximately 67 acres of undevelopable land located within the corporate limits of the City of Sugar Land.</td></tr>
<tr><td>Acreage</td><td>The District presently contains approximately 1,768 acres of land.
<table>
<tr><th>Annexation History</th><th>Date</th><th>Acres Added</th><th>District Acreage</th></tr>
<tr><td>Creation of MUD 128</td><td>1/17/06</td><td></td><td>670.72</td></tr>
<tr><td>Annexation- Part of MUD 127</td><td>8/23/10</td><td>33.15</td><td>703.87</td></tr>
<tr><td>Annexation- Part of MUD 127 & 126</td><td>5/23/11</td><td>184.19</td><td>888.06</td></tr>
<tr><td>Annexation- Rest of MUD 127</td><td>9/24/12</td><td>304.94</td><td>1,193.00</td></tr>
<tr><td>Annexation- Rest of MUD 126</td><td>2/24/14</td><td>575.00</td><td>1,768.00</td></tr>
</table></td></tr>
<tr><td>Riverstone</td><td>The District is part of the approximately 3,700-acre master planned community known as “Riverstone.” The District is one of four municipal utility districts that serve Riverstone. At full development, Riverstone is projected to include single family, multi-family, townhome, institutional (churches, schools, etc.) and commercial development. Recreational amenities within Riverstone include walking trails throughout the community, three recreation centers with facilities including a 9,000 square foot clubhouse with fitness and ballroom facilities, a pool, splash pad, activity pool and playgrounds, a dog park, a pavilion, ten tennis courts and a fishing pier for use by Riverstone residents.</td></tr>
<tr><td>Developers</td><td>The original developers of land within the District are Hillsboro Estates, LLC, a Texas limited liability company (“Hillsboro Estates”), Sugar Land Ranch Development, LLC, a Texas limited liability company, (“Sugar Land Ranch LLC”), Sugar Land Ranch Development II Corp., a Texas corporation (“Sugar Land Ranch II”) and Riverstone 250, Inc., a Texas corporation (“Riverstone 250, Inc.”). All of the above entities are directly or indirectly owned and/or controlled by Larry D. Johnson, Lawrence Wong and Rocky Lai. Hillsboro Estates, Sugar Land Ranch LLC, Sugar Land Ranch II and Riverstone 250, Inc. are collectively referred to herein as the “Original Developers.” These entities currently own 81 acres of undeveloped land in the District. Each of these entities was created to own and/or develop land in the Riverstone project, and all of the assets and liabilities of these entities are related solely to the Riverstone project.</td></tr>
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	Homebuilders actively building within the District are: Darling Homes, Fedrick Harris, Meritage Homes, Partners in Building, Perry Homes, Sitterle, Taylor Morrison Homes, Toll Brothers, Westport Homes and Westin Homes. New homes in the District range in offering prices from approximately $350,000 to over $1,000,000.
Source of Payment	The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See "TAX PROCEDURES." The Bonds are obligations of the District and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land or any other political subdivision or agency other than the District. See "THE BONDS—Source of and Security for Payment.
Municipal Bond Rating and Insurance	Application has been made to Moody's Investors Service ("Moody's") for an underlying rating on the Bonds, and Moody's has assigned an underlying rating of "__" to the District. Application has also been made to various municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the Initial Purchaser at the Initial Purchaser's expense. The rating fee of Moody's will be paid for by the District; payment of any other rating fee will be the responsibility of the Initial Purchaser.
2016 Tax Rate (Per $100 Valuation)	$0.58 Debt Service $0.12 Maintenance & Operations $0.700 Total
Unlimited Tax Bond, Series 2017	Interest payments begin in 2018 at $654,375 and principal payments begin in 2018 for $850,000.
Maximum Annual P&I (2018)	$5,980,956 Total for all issues
Average Annual P&I (2017 – 2040)	$5,048,411 Total for all issues

Use of Proceeds from Bonds			
	CONSTRUCTION RELATED COSTS		
	Construction and Engineering Costs Approved by the TCEQ	$	13,726,890
	Land Acquisition Costs Approved by the TCEQ		10,109
	Accrued Interest on Construction Costs		1,754,344
	Total Construction Related Costs	**$**	**15,491,343**
	BOND ANTICIPATION NOTE COSTS		
	Estimated Bond Anticipation Note Interest	$	331,500
	Issuance Costs and Professional Fees		226,601
	Total Bond Anticipation Note Costs	**$**	**558,101**
	NON-CONSTRUCTION COSTS		
	Underwriter's Discount(a)	$	523,500
	Total Non-Construction Costs	**$**	**523,500**
	ISSUANCECOSTS AND FEES		
	Issuance Costs and Professional Fees.	$	708,931
	Bond Application Report Costs.		115,000
	State Regulatory Fees.		53,125
	Total Issuance Costs and Fees	**$**	**877,056**
	TOTAL BOND ISSUE REQUIREMENT	**$**	**17,450,000**

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<tr><td>Taxable Assessed Valuation</td><td>$1,309,315,404 - 2017 Taxable Assessed Valuation
$1,482,888,417 - Estimated Taxable Value as of July 1,2017</td></tr>
<tr><td>Outstanding Debt</td><td>Outstanding Bonds (as of June 30, 2017) is $ 67,465,000
<table>
<tr><th>Series</th><th>Original Principal Amount</th><th>Principal Outstanding as of June 30, 2017</th></tr>
<tr><td>2010</td><td>$3,045,000</td><td>$2,660,000</td></tr>
<tr><td>2013</td><td>3,950,000</td><td>3,500,000</td></tr>
<tr><td>2014</td><td>14,220,000</td><td>13,545,000</td></tr>
<tr><td>2015</td><td>21,760,000</td><td>21,110,000</td></tr>
<tr><td>2016</td><td>26,650,000</td><td>26,650,000</td></tr>
<tr><td></td><td>Total Bonds Outstanding</td><td>$67,465,000</td></tr>
</table></td></tr>
<tr><td>Future Debt</td><td>After reimbursement from sale of the Bonds, the Developers will have expended approximately $11,000,000 (as of June 30, 2017) for design, construction and acquisition of District water, sanitary sewer and drainage facilities and water and wastewater connection fees not yet reimbursed. It is anticipated that proceeds from future issues of District bonds will be used, in part, to reimburse the Developers for these costs to the extent allowed by the Commission. The District anticipates the issuance of additional bonds in the future. Additionally, the District contains approximately 285 acres of developable land not presently served with water distribution, wastewater collection and storm drainage facilities. It is anticipated that additional bonds will be issued to finance the construction of these facilities to serve this undeveloped acreage.</td></tr>
<tr><td>Tax Rate Requirement for Maximum and Average Debt Service
(95% collection)</td><td>Tax rate required to pay Maximum Requirement based upon
• 2017 Taxable Assessed Valuation at a 95% collection rate is $0.49/$100A.V.
• Estimated Taxable Assessed Valuation as of July 1, 2017 at a 95% collection rate is $0.43/$100A.V.
Tax rate required to pay Average Requirement based upon
• 2017 Taxable Assessed Valuation at a 95% collection rate is $0.41/$100A.V.
• Estimated Taxable Assessed Valuation as of July 1, 2017 at a 95% collection rate is $0.36/$100A.V.</td></tr>
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DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds and the estimated debt service requirements for the Bonds at an assumed interest rate of 3.75% per annum

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds Principal	Interest	Total	Debt Service Requirements
2017	$ 4,536,865				$ 4,536,865
2018	4,476,581	$ 850,000	$ 654,375	$ 1,504,375	5,980,956
2019	4,474,921	850,000	622,500	1,472,500	5,947,421
2020	4,466,646	750,000	590,625	1,340,625	5,807,271
2021	4,461,804	750,000	562,500	1,312,500	5,774,304
2022	4,437,334	750,000	534,375	1,284,375	5,721,709
2023	4,424,559	750,000	506,250	1,256,250	5,680,809
2024	4,404,099	750,000	478,125	1,228,125	5,632,224
2025	4,390,301	750,000	450,000	1,200,000	5,590,301
2026	4,368,681	750,000	421,875	1,171,875	5,540,556
2027	4,346,614	750,000	393,750	1,143,750	5,490,364
2028	4,326,369	750,000	365,625	1,115,625	5,441,994
2029	4,289,400	750,000	337,500	1,087,500	5,376,900
2030	4,263,200	750,000	309,375	1,059,375	5,322,575
2031	4,209,110	750,000	281,250	1,031,250	5,240,360
2032	4,156,448	750,000	253,125	1,003,125	5,159,573
2033	4,117,073	750,000	225,000	975,000	5,092,073
2034	4,049,610	750,000	196,875	946,875	4,996,485
2035	3,990,048	750,000	168,750	918,750	4,908,798
2036	3,906,875	750,000	140,625	890,625	4,797,500
2037	3,419,250	750,000	112,500	862,500	4,281,750
2038	3,350,070	750,000	84,375	834,375	4,184,445
2039	2,274,000	750,000	56,250	806,250	3,080,250
2040	798,250	750,000	28,125	778,125	1,576,375
Total	**$ 95,938,107**	**$17,450,000**	**$ 7,773,750**	**$ 25,223,750**	**$ 121,161,857**

Average Annual Debt Service Requirements (2017-2040) - $5,048,411

Maximum Annual Debt Service Requirements (2018) - $5,980,956