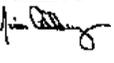




# CITY COUNCIL

## AGENDA REQUEST

<b>AGENDA OF:</b>	<b>10-18-11</b>	<b>AGENDA REQUEST NO:</b>	<b>VII-A</b>
<b>INITIATED BY:</b>	<b>RAZEEDA BOOCHOON SENIOR BUDGET ANALYST</b>	<b>RESPONSIBLE DEPARTMENT:</b>	<b>BUDGET &amp; RESEARCH</b>
<b>PRESENTED BY:</b>	<b>JENNIFER BROWN, BUDGET &amp; RESEARCH DIRECTOR AND  JULIE PEAK, FIRST SOUTHWEST COMPANY</b>	<b>DEPARTMENT HEAD:</b>	<b>JENNIFER BROWN,  BUDGET &amp; RESEARCH DIRECTOR</b>
		<b>ADDITIONAL DEPARTMENT HEAD (S):</b>	<b>CHRISTOPHER STEUBING, PE, CFM, CITY ENGINEER  JIM CALLAWAY,  DIR. OF COMMUNITY DEV.</b>

**SUBJECT / PROCEEDING:** CONSIDERATION AND APPROVAL OF FORT BEND COUNTY MUD 138 ISSUANCE OF \$3,205,000 UNLIMITED TAX ROAD BONDS, SERIES 2011

**EXHIBITS:** STAFF MEMORANDUM  
DEBT SCHEDULE  
PRELIMINARY OFFICIAL STATEMENT

CLEARANCES		APPROVAL	
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<b>LEGAL:</b>	N/A	<b>ASST. CITY MANAGER:</b>	<b>KAREN GLYNN </b>
<b>PURCHASING:</b>	N/A	<b>ASST. CITY MANAGER:</b>	N/A
<b>BUDGET:</b>	N/A	<b>CITY MANAGER:</b>	<b>ALLEN BOGARD </b>

BUDGET	
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<b>EXPENDITURE REQUIRED: \$</b>	N/A
<b>CURRENT BUDGET: \$</b>	N/A
<b>ADDITIONAL FUNDING: \$</b>	N/A

RECOMMENDED ACTION
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Consideration and approval of the issuance of \$3,205,000 Unlimited Tax Road Bonds, Series 2011 for Fort Bend County Municipal Utility District No. 138.

## EXECUTIVE SUMMARY

Fort Bend County Municipal Utility District No. 138 is wholly located within the corporate limits of the City. The district is proposing to issue the fifth installment of a total \$86,450,000 bond authorization approved by the voters of the district. However, these Bonds are the first series of bonds issued out of an aggregate of \$36,675,000 principal amount of unlimited tax road bonds authorized by the District's voters for the purpose of roads and related improvements. This installment is planned for \$3,205,000.

The proposed bond issuance complies with the Interlocal Agreement between the City and MUD 138 regarding participation in TIRZ 4 and the amended consent resolution (Resolution 11-37 on tonight's agenda) to allow the districts to fund roadway projects. This issue will fund the construction of Westcott Avenue Bridge, Westcott Avenue – Phase IV, and Meadowcroft Boulevard Bridge for a total cost of \$3,205,000 (construction cost for 2,610,987 and non-construction costs for \$594,013).

The district is one of the four municipal utility districts established within the 2,018 acre Telfair development. Home construction in the district began in 2006. As of July 31, 2011, 866 single-family residential lots on approximately 329 acres has been completed, 817 homes were constructed, 9 homes were under construction and 40 vacant developed lots were available for home construction. Prices of the homes range from \$275,000 to \$1,000,000 and each builder is required to build "speculative inventory" pursuant to the lot sales agreements with the Developer. Utility construction is currently underway for 195 lots on approximately 57 acres. The Houston Museum of Natural Science Sugar Land is located on approximately 5 acres and the Telfair recreation center site is located on approximately 7 acres. Approximately 119 additional developable acres currently within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 179 acres are not developable (rights-of-way, detention, open spaces, easements and utility sites).

Proceeds of the Bonds will be used to fund construction costs of \$2,610,987 and non-construction costs of \$594,013 for a total of \$3,205,000. In addition, Bond proceeds will be used to capitalize eighteen (18) months of interest on the Bonds; and to pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds.

In accordance with the City's policy on MUD's, the proposed issue does not extend the District's repayment schedule. The proposed term of the debt issuance is 23 years. Interest payments begin in 2012 for \$160,250 and then increases to \$192,300 in 2013 and then start decreasing through the rest of the repayment schedule. Principal payment begins in 2013 for \$75,000 and increases to \$250,000 in the final year of payment in 2034.

The district 2011 total tax rate is \$0.57, with \$0.04 for maintenance and \$0.53 for debt service. The 2011 Taxable Assessed Value is \$388,386,903.

At this time the District is requesting Council's consideration and approval of the proposed debt issue, which is planned for October 20, 2011. Staff recommends Council consent to the debt issuance, with prior approval of Resolution 11-37 granting the district's road bond authority. The district's financial advisor will be available to address any questions at the City Council meeting.

## EXHIBITS

## MEMORANDUM

**TO:** Allen Bogard, City Manager

**VIA:** Jennifer Brown, Budget and Research Director 

**FROM:** Razeeda Boochoon, Sr. Budget Analyst

**DATE:** October 13, 2011

**SUBJECT:** Fort Bend County Municipal Utility District No. 138  
\$3,205,000 Unlimited Tax Road Bonds, Series 2011

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Fort Bend County Municipal Utility District No 138, a wholly incorporated District within the City limits is presenting to the Mayor and City Council for consideration and approval of the proposed sale of \$3,205,000 of Unlimited Tax Road Bonds Series 2011. 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.

Although these bonds do not fall under the rules, regulations and standards as set forth in Chapter 5 of the Code of Ordinances, we have reviewed the proposed issue as if it fell under those standards. The standards from Chapter 5 are summarized below:

1. Bonds may be issued by the District only for the purpose of purchasing, constructing, improving, and maintaining water, sanitary sewer and drainage systems within the boundaries of the District. (Road bond authority granted by Resolution No. 11-37)
2. District bonds shall expressly reserve the right of redemption of any bonds on any interest payment date subsequent to the tenth anniversary of the date of issuance.
3. The redemption premium shall not exceed two and one-half percent of par value each year thereafter to par value.
4. Bonds other than refunding bonds and bonds sold to a federal or state agency shall be competitively bid.
5. No bonds shall be sold for less than ninety-five percent of par, provided that the net effective interest rate on the bonds sold, taking into consideration any discount or premium as well as the rate borne by the bonds, shall not exceed two percent above the highest average interest rate reported by the Daily Bond Buyer during the thirty day period preceding the date of the sale of the bonds.
6. Bids will be received not more than forty-five days after notice of sale of the bonds is given.
7. The order or resolution of the District authorizing the issuance of all refunding bonds of the District

shall be approved by the Mayor. (N/A in this case.)

8. The District’s resolution authorizing the issuance will contain a provision that the pledge of the revenues from the operation of the District’s water and sewer and/or drainage system to the payment of the District’s bonds will terminate when and if the City or some other City annexes the District, takes over the assets of the District and assumes the obligations of the District. This issuance, under consideration, is bonds payable from annual ad valorem tax. (This part is Not Applicable as the District is wholly and fully incorporated within City limits)
  
9. The District shall not be permitted to escrow any funds in excess of two years' interest on the bonds which the district issued and shall levy a tax simultaneously with the first installment of such bonds and will continue a tax levy until such bonds are paid in full, unless the revenues of the system are adequate to discharge such bonds.
  
10. Prior to the sale of any series of District bonds, the district shall secure a letter from the Mayor to the effect that the district is in compliance with Chapter 5. The Mayor shall address a letter to the Attorney General 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 on and sales price of the bonds.

Presented below is information regarding the District and the proposed bonds as provided in the Notice of Sale and Preliminary Official Statement.

District Creation	April 1, 2005 by the Texas Commission on Environmental Quality (TCEQ). The District is wholly incorporated within the corporate limits of the City of Sugar Land (City).
Acreage	696 acres
Developers of the District	NNP-Telfair LP (“NNP” or the “Developer”), a Texas limited partnership, is the developer of the District. The Developer was created for the sole purpose of developing Telfair. Its only substantial asset consists of land in Telfair. The general partner of the Developer is NNP-TV Communities, LP, a Texas Limited partnership (“NNP-TV”) and its limited partners are Newland National Partners, LP, a California limited partnership (“NNP”), and American Newland Communities, LP, a Delaware limited partnership. The general partner of NNP-TV is NNP-TV Management, LLC, a Delaware limited liability company, and it limited partner is NNP. American Newland LLC is a planned community developer in the United States.
Telfair	The District is part of the 2,018 acre master planned community of Telfair and three other municipal utility districts and a levee improvement district. Approximately 2,542 single-family residential lots have been constructed or under construction in Telfair, including 866 in the District. In addition, the Houston Museum of Natural Science, Sugar Land branch, is located in a 43,000 square foot historic building located in Telfair in the District. Recreational amenities within Telfair include a 2,200 square foot visitors center and central sales office, a lake system, a greenbelt system, over five miles landscaped trails, eleven neighborhood parks each with open space and playground and a recreation center and two pools, a sand volleyball court and a playground.

<p>Status of District Development</p>	<p>Home construction in the District began in 2006. As of July 31, 2011, 866 single-family residential lots on approximately 329 acres has been completed, 817 homes were constructed, 9 homes were under construction and 40vacant developed lots were available for home construction.</p> <p>Prices of the homes range from \$275,000 to \$1,000,000 and each builder is required to build “speculative inventory” pursuant to the lot sales agreements with the Developers.</p> <p>Utility construction is currently underway for 195 lots on approximately 57 acres.</p> <p>The Houston Museum of Natural Science Sugar Land is located on approximately 5 acres and the Telfair recreation center site is located on approximately 7 acres.</p> <p>Approximately 119 additional developable acres currently within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 179 acres are not developable (rights-of-way, detention, open spaces, easements and utility sites).</p>
<p>Water and Wastewater Utilities</p>	<p>All of the land in the District is located within the corporate limits of Sugar Land. The City and the District have entered into a utility agreement, dated July 21, 2005. Under the utility agreement the District will acquire, construct, and extend water, sanitary sewer and drainage facilities to serve the land in the District and when completed in accordance with approved plans and specifications, the District is required to convey title to the System in the City. The City then operates and maintains the System, and is responsible for establishing water and sewer rates and billing and collecting for such services.</p> <p>The Utility Agreement provides that the District retain a security interest in the System to secure the City’s performance under the Agreement until the District’s bonds have been fully paid. The District will then execute a release of such security interest and the City will own the System. The Utility Agreement further requires the District to pay the City a capital recovery fee to purchase water supply and wastewater treatment capacity in the City’s existing system. The City Connection Charge is set by the City and may be amended without the District’s consent at anytime.</p>
<p>Total Bonds Authorized</p>	<p>\$86,450,000 for Facilities  \$56,200,000 in Refunding Bonds  \$37,675,000 for Road Purposes  \$7,600,000 for Parks Purposes</p>
<p>Bonds Outstanding</p>	<p>\$23,015,000</p>
<p>Remaining Authorization</p>	<p>\$61,530,000 for Facilities  \$56,200,000 for Refunding Bonds  \$34,470,000 for Road Purposes (after this issue)  \$7,600,000 for Parks Purposes</p>
<p>Source of Payment</p>	<p>The principal and interest on the bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax levied, without legal limitation as to rate or amount, levied against taxable property located in the District.</p>

Bond Rating and Insurance	Standard and Poor's Corporation has assigned an underlying rating to the District of "BBB". An explanation of the ratings may be obtained from Standard and Poor's Corporation. The fee associated with the rating assigned to the District by Standard and Poor's will be paid by the District; however, the fee associated with the ratings provided by other agencies will be at the expense of the Underwriter. The purchase of the municipal bond insurance, if available, will be at the option and expense of the Underwriter.																																				
2011 Tax Rate (Per \$100 Valuation)	\$ .53 Debt Service <u>\$ .04 O &amp; M</u> \$ .57 Total																																				
Unlimited Tax Road Bonds, Series 2011	Interest payments begin in 2012 for \$160,250 and increases to \$192,300 in 2013 and then starts decreasing through the rest of the repayment schedule. Principal payment begins in 2013 for \$75,000 and increases to \$250,000 in the final year of payment in 2034. Term of Series is 23 years.																																				
Maximum Annual P & I (2013)	\$2,203,391 including 2011 Bonds																																				
Average Annual P & I (2012-2034)	\$1,884,858 including 2011 Bonds																																				
Use of Proceeds from Bonds	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2">I Construction Costs</td> </tr> <tr> <td style="padding-left: 20px;">Westcott Avenue Bridge</td> <td style="text-align: right;">\$ 973,898</td> </tr> <tr> <td style="padding-left: 20px;">Westcott Avenue Phase 4</td> <td style="text-align: right;">453,148</td> </tr> <tr> <td style="padding-left: 20px;">Meadowcroft Boulevard Bridge</td> <td style="text-align: right;">750,000</td> </tr> <tr> <td style="padding-left: 20px;">Contingencies</td> <td style="text-align: right;">183,853</td> </tr> <tr> <td style="padding-left: 20px;">Engineering, Geotechnical, and GPS</td> <td style="text-align: right;">250,088</td> </tr> <tr> <td style="padding-left: 20px;">Total Construction Costs</td> <td style="text-align: right;"><u>2,610,987</u></td> </tr> <tr> <td colspan="2">II Non-Construction Costs</td> </tr> <tr> <td style="padding-left: 20px;">Legal Fees</td> <td style="text-align: right;">95,125</td> </tr> <tr> <td style="padding-left: 20px;">Financial Advisory Fees</td> <td style="text-align: right;">64,100</td> </tr> <tr> <td style="padding-left: 20px;">Capitalized Interest</td> <td style="text-align: right;">288,450</td> </tr> <tr> <td style="padding-left: 20px;">Developer Interest</td> <td style="text-align: right;">12,936</td> </tr> <tr> <td style="padding-left: 20px;">Underwriter's Discount</td> <td style="text-align: right;">96,150</td> </tr> <tr> <td style="padding-left: 20px;">Attorney General Fee</td> <td style="text-align: right;">3,205</td> </tr> <tr> <td style="padding-left: 20px;">Road District Creation Report</td> <td style="text-align: right;">10,027</td> </tr> <tr> <td style="padding-left: 20px;">Bond Issuance Expenses</td> <td style="text-align: right;">24,020</td> </tr> <tr> <td style="padding-left: 20px;">Total Non-Construction Costs</td> <td style="text-align: right;"><u>594,013</u></td> </tr> <tr> <td style="padding-left: 40px;">TOTAL BOND ISSUE REQUIREMENT</td> <td style="text-align: right;"><u><u>\$ 3,205,000</u></u></td> </tr> </table>	I Construction Costs		Westcott Avenue Bridge	\$ 973,898	Westcott Avenue Phase 4	453,148	Meadowcroft Boulevard Bridge	750,000	Contingencies	183,853	Engineering, Geotechnical, and GPS	250,088	Total Construction Costs	<u>2,610,987</u>	II Non-Construction Costs		Legal Fees	95,125	Financial Advisory Fees	64,100	Capitalized Interest	288,450	Developer Interest	12,936	Underwriter's Discount	96,150	Attorney General Fee	3,205	Road District Creation Report	10,027	Bond Issuance Expenses	24,020	Total Non-Construction Costs	<u>594,013</u>	TOTAL BOND ISSUE REQUIREMENT	<u><u>\$ 3,205,000</u></u>
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Taxable Assessed Value	\$388,386,903 – 2011 Taxable Assessed Value																																				
Tax Rate Requirement for Maximum and Average Debt Service (95% collection)	The required tax rate for the Maximum Debt Service payment on the bonds is \$0.60/\$100 based upon the 2011 Taxable Assessed Value. The required tax rate for the Average Annual Debt Service payment on the bonds is \$0.52/\$100 based upon the 2011 Taxable Assessed Value. The 2011 Preliminary Taxable Assessed Value is assuming a 95% collection rate and no City rebate.																																				

## DISTRICT DEBT

### Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements on the outstanding Bonds and the estimated debt service on the Bonds at an estimated interest rate of 6.00%. This schedule does not reflect the fact that an amount equal to eighteen(18) months of interest was capitalized from Bond proceeds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Debt Service Requirements
		Principal	Interest	Total	
2012	\$ 1,959,281.26		\$ 160,250.00	\$ 160,250.00	\$ 2,119,531.26
2013	1,936,091.26	\$ 75,000.00	192,300.00	267,300.00	2,203,391.26
2014	1,906,791.26	80,000.00	187,800.00	267,800.00	2,174,591.26
2015	1,881,416.26	85,000.00	183,000.00	268,000.00	2,149,416.26
2016	1,859,611.26	90,000.00	177,900.00	267,900.00	2,127,511.26
2017	1,831,211.26	95,000.00	172,500.00	267,500.00	2,098,711.26
2018	1,810,271.26	100,000.00	166,800.00	266,800.00	2,077,071.26
2019	1,787,716.26	105,000.00	160,800.00	265,800.00	2,053,516.26
2020	1,771,518.76	110,000.00	154,500.00	264,500.00	2,036,018.76
2021	1,753,773.76	120,000.00	147,900.00	267,900.00	2,021,673.76
2022	1,743,743.76	125,000.00	140,700.00	265,700.00	2,009,443.76
2023	1,721,498.76	130,000.00	133,200.00	263,200.00	1,984,698.76
2024	1,706,373.76	140,000.00	125,400.00	265,400.00	1,971,773.76
2025	1,689,493.76	150,000.00	117,000.00	267,000.00	1,956,493.76
2026	1,672,781.26	155,000.00	108,000.00	263,000.00	1,935,781.26
2027	1,653,968.76	165,000.00	98,700.00	263,700.00	1,917,668.76
2028	1,631,831.26	175,000.00	88,800.00	263,800.00	1,895,631.26
2029	1,607,593.76	185,000.00	78,300.00	263,300.00	1,870,893.76
2030	1,590,668.76	200,000.00	67,200.00	267,200.00	1,857,868.76
2031	1,566,043.76	210,000.00	55,200.00	265,200.00	1,831,243.76
2032	1,544,025.00	225,000.00	42,600.00	267,600.00	1,811,625.00
2033	508,575.00	235,000.00	29,100.00	264,100.00	772,675.00
2034	209,500.00	250,000.00	15,000.00	265,000.00	474,500.00
<b>Total</b>	<u>\$ 37,343,780.20</u>	<u>\$ 3,205,000.00</u>	<u>\$ 2,802,950.00</u>	<u>\$ 6,007,950.00</u>	<u>\$43,351,730.20</u>

## PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 15, 2011

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND THE BONDS ARE NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS AND CORPORATIONS, EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE-Book-Entry Only

**\$3,205,000**

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 138**  
*(A political subdivision of the State of Texas located within Fort Bend County)*

### UNLIMITED TAX ROAD BONDS SERIES 2011

The bonds described above (the "Bonds") are obligations solely of Fort Bend County Municipal Utility District No. 138 (the "District") and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land (the "City") or any entity other than the District.

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

Interest accrues from November 1, 2011

Due: September 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially Wells Fargo Bank, N.A., Fort Worth, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from November 1, 2011, and is payable each September 1 and March 1, commencing March 1, 2012, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

### MATURITY SCHEDULE

Principal Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)	Principal Amount(a)	Maturity (September 1)	CUSIP Number(c)	Interest Rate	Initial Reoffering Yield(d)
\$ 80,000	2013		%	%	\$ 140,000	2024 (b)		%	%
85,000	2014				150,000	2025 (b)			
90,000	2015				155,000	2026 (b)			
95,000	2016				165,000	2027 (b)			
100,000	2017				175,000	2028 (b)			
105,000	2018				185,000	2029 (b)			
110,000	2019				195,000	2030 (b)			
115,000	2020 (b)				200,000	2031 (b)			
120,000	2021 (b)				215,000	2032 (b)			
130,000	2022 (b)				225,000	2033 (b)			
135,000	2023 (b)				235,000	2034 (b)			

- The Underwriter may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."
- Bonds maturing on or after September 1, 2020, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2019, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter (as herein defined) shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about November 17, 2011, in Houston, Texas.

**Selling: Thursday, October 20, 2011 at 2:00 P.M. Houston Time in Houston, Texas**

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<p><b>AERIAL PHOTOGRAPH PHOTOGRAPHS OF THE DISTRICT</b></p> <p><b>APPENDIX A—Financial Statement of the District for the fiscal year ended June 30, 2011</b></p>
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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this OFFICIAL STATEMENT, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District.

This OFFICIAL STATEMENT is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

This OFFICIAL STATEMENT contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement."

## SALE AND DISTRIBUTION OF THE BONDS

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by \_\_\_\_\_ (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of \_\_\_\_\_% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of \_\_\_\_\_% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (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 Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire Official Statement and of the documents summarized or described therein.

### THE DISTRICT

- Description...* The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”), on April 1, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 696 acres of land. See “THE DISTRICT.”
- Location...* The District is located approximately 22 miles southwest of the central downtown business district of the City of Houston and lies wholly within the corporate boundaries of the City of Sugar Land (the “City”). The District is also located within the boundaries of the Fort Bend Independent School District. Access to the District is provided by U.S. Highway 59 to University Boulevard. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”
- The Developer...* NNP-Telfair LP (the “Developer”), a Texas limited partnership, is the developer of the District. The Developer was created for the sole purpose of developing Telfair. Its only substantial asset consists of the land in Telfair. The general partner of the Developer is NNP-TV Communities, LP, a Texas limited partnership (“NNP-TV”), and its limited partners are Newland National Partners, LP, a California limited partnership (“NNP”), and American Newland Communities, LP, a Delaware limited partnership. The general partner of NNP-TV is NNP-TV Management, LLC, a Delaware limited liability company, and its limited partner is NNP. American Newland Communities LP is a planned community developer in the United States. See “THE DEVELOPER.”
- Telfair...* The District is part of the 2,018 acre master-planned community of Telfair, consisting of the District and three other municipal utility districts and a levee improvement district. Approximately 2,542 single-family residential lots have been constructed or are under construction in Telfair, including 866 in the District. In addition, the Houston Museum of Natural Science, Sugar Land branch, is located in a 43,000 square foot historic building located in the District. Recreational amenities within Telfair include a 2,200 square foot visitor’s center and central sales office, a lake system, a greenbelt system, over five miles of landscaped trails, eleven neighborhood parks each with open space and playground and two recreational pools, a sand volley ball court and a playground.
- Status of District Development...* Home construction in the District began in 2006. As of July 31, 2011, 866 single-family residential lots on approximately 329 acres had been completed, 817 homes were completed (805 occupied, 12 unoccupied of which 6 are not under contract to a homebuyer), 9 homes were under construction and 40 vacant developed lots were available for home construction. Homes within the District range in price from approximately \$275,000 to \$1,000,000. Utility construction is currently underway for 195 lots on approximately 57 acres. The Houston Museum of Natural Science Sugar Land (nontaxable) is located on approximately 5 acres and the Telfair recreation center site (nontaxable) is located on approximately 7 acres. Approximately 119 additional developable acres currently within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 179 acres are not developable and consist of rights-of-way, detention, open spaces, easements and utility sites. See “THE DISTRICT.”

*Fort Bend Levee Improvement  
District No. 17...*

All of the land within Telfair lies within Fort Bend Levee Improvement District No. 17 (“LID 17”), which encompasses approximately 2,317 acres of land. LID 17 has constructed a system of levees, detention ponds, channels and other drainage improvements, reclaiming land from the Brazos River flood-plain, including the land within the District, and finances the acquisition and/or construction of drainage and levee facilities with the proceeds of its unlimited tax bonds. LID 17 has \$55,735,000 principal amount of bonds outstanding (including \$7,915,000 principal amount of bonds currently under review at the TCEQ that LID 17 expects to issue in 2011). LID 17 levied a total 2011 tax rate of \$0.63 per \$100 of assessed valuation (\$0.44 for debt service and \$0.19 for maintenance and operations). See “THE SYSTEM—Flood Protection” and INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values,” and “Tax Payments—Overlapping Debt and Taxes.”

*Builders...*

Homes are being constructed in the District by Darling Homes, Perry Homes, Village Builders, David Weekly Homes, Trendmaker Homes, Huntington Homes, Highland Homes, Wilshire Homes, Newmark Homes and Partners in Building. See “THE DEVELOPER—Homebuilding.”

*Payment Record...*

The District has previously sold \$24,920,000 in four series of unlimited tax bonds, of which \$23,015,000 principal amount is outstanding as of the date hereof (the “Outstanding Bonds”). The District has never defaulted in payment on its Outstanding Bonds.

**THE BONDS**

*Description...*

\$3,205,000 Unlimited Tax Road Bonds, Series 2011 (the “Bonds”) are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially in the years 2013 through 2034, both inclusive, in the principal amounts shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from November 1, 2011, and is payable March 1, 2012, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

*Book-Entry-Only System...*

The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

*Redemption...*

Bonds maturing on or after September 1, 2020 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2019, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

*Use of Proceeds...*

Proceeds of the Bonds will be used to pay for items show herein under “USE AND DISTRIBUTION OF PROCEEDS.” In addition, Bond proceeds will be used to capitalize eighteen (18) months of interest on the Bonds; to pay interest on funds advanced by the Developer on behalf of the District; and to pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.”

<i>Authority for Issuance...</i>	The Bonds are the first series of bonds issued out of an aggregate of \$37,675,000 principal amount of unlimited tax road bonds authorized by the District's voters for the purpose of roads and related improvements. The Bonds are issued by the District pursuant to the terms and provisions of Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas, and the Bond Resolution. See "THE BONDS—Authority for Issuance—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City, Fort Bend County, the State of Texas or any entity other than the District. See "THE BONDS—Source of Payment."  In addition, the District intends, but is not legally obligated, to use property tax rebate receipts from the City to pay a portion of principal and interest on the Bonds. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND."
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	Standard & Poor's Corporation has assigned an underlying rating to the District of "___." An explanation of the ratings may be obtained from Standard & Poor's Corporation, 55 Water Street, New York, New York 10041. The fee associated with the rating assigned to the District by Standard & Poor's Corporation will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter.  The purchase of municipal bond insurance, if available, will be at the option and expense of the Underwriter.
<i>Qualified Tax-Exempt Obligations...</i>	The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2011 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS—Qualified Tax Exempt Obligations."
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT" and "LEGAL MATTERS."
<i>Financial Advisor...</i>	First Southwest Company, Houston, Texas.
<i>Disclosure Counsel...</i>	Fulbright & Jaworski L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	Wells Fargo Bank, N.A., Fort Worth, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds are subject to special risk factors and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2011 Taxable Assessed Value .....	\$388,386,903 (a)
Estimated Taxable Assessed Value as of September 1, 2011 .....	\$395,489,204 (b)
Gross Direct Debt Outstanding .....	\$26,220,000 (c)
Estimated Overlapping Debt .....	<u>43,546,934 (d)</u>
Gross Direct Debt and Estimated Overlapping Debt .....	\$69,766,934
Ratios of Gross Direct Debt to:	
2011 Taxable Assessed Value .....	6.75%
Estimated Taxable Assessed Value as of September 1, 2011 .....	6.63%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2011 Taxable Assessed Value .....	17.96%
Estimated Taxable Assessed Value as of September 1, 2011 .....	17.64%
Water and Sewer Debt Service Fund Balance as of September 15, 2011 .....	\$1,289,761 (e)
Road Debt Service Fund Balance (Eighteen Months of Capitalized Interest) .....	<u>288,450</u>
Total Funds Available for Debt Service .....	\$1,578,211
Operating Funds Available as of September 15, 2011 .....	\$73,073
Capital Project Fund Balance as of September 15, 2011 .....	\$1,183,146
2011 Debt Service Tax Rate .....	\$0.53
2011 Maintenance Tax Rate .....	<u>0.04</u>
2011 Total Tax Rate .....	\$0.57
Average Annual Debt Service Requirement (2012-2034) .....	\$1,867,947 (c)
Maximum Debt Service Requirement (2013) .....	\$2,184,354 (c)
Tax Rates Required to Pay Average Annual Debt Service (2012-2034) at a 95% Collection Rate	
Based upon 2011 Taxable Assessed Value .....	\$0.51 (f)
Based upon Estimated Taxable Assessed Value as of September 1, 2011 .....	\$0.50 (f)
Tax Rates Required to Pay Maximum Annual Debt Service (2013) at a 95% Collection Rate	
Based upon 2011 Taxable Assessed Value .....	\$0.60 (f)
Based upon Estimated Taxable Assessed Value as of September 1, 2011 .....	\$0.59 (f)
Status of Development as of July 31, 2011 (g):	
Homes Completed (805 occupied, 6 model homes) .....	817
Homes Under Construction .....	9
Lots Available for New Homes .....	40
Estimated Population .....	2,817 (h)

- (a) The Fort Bend County Appraisal District (the "Appraisal District") has certified \$380,109,913 of taxable value. An additional \$8,276,990 of taxable value remains uncertified and is subject to downward adjustment prior to certification. The 2011 Taxable Assessed Value shown here represents the certified value plus the uncertified value.
- (b) Provided by the Appraisal District for information purposes only. Such amount reflects the estimated value of improvements on September 1, 2011. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District.
- (c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt—Overlapping Taxes."
- (e) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Outstanding Bonds (as defined herein) and a portion will be allocated to the Bonds (see "FINANCIAL INFORMATION (UNAUDITED)—Outstanding Bonds"). The Water, Sewer & Drainage Debt Service Fund is not pledged to the Bonds nor will funds deposited into the Road Debt Service Fund be pledged to bonds sold for purposes of water, sewer and drainage. The District will capitalize eighteen (18) months of interest from Bond proceeds and such capitalized interest will be deposited into the Road Debt Service Fund for the Bonds. The amount of interest to be capitalized from Bond proceeds is estimated at 6.00%. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (f) The District receives a tax rebate from the City equivalent to fifty percent (50%) of the City taxes collected upon taxable value in the District. While the District anticipates using the City tax rebate to pay debt service on the Bonds, such revenue is not pledged to the payment of the Bonds or the Outstanding Bonds and, therefore, is not included in the calculation of the tax rate requirements. All tax rebates received since the inception of the District have been transferred to the Water and Sewer Debt Service Fund. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND."
- (g) See "THE DISTRICT—Land Use—Status of Development."
- (h) Based upon 3.5 persons per occupied single-family residence.

## PRELIMINARY OFFICIAL STATEMENT

**\$3,205,000**

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 138**  
*(A political subdivision of the State of Texas located within Fort Bend County)*

### **UNLIMITED TAX ROAD BONDS SERIES 2011**

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 138 (the "District") of its \$3,205,000 Unlimited Tax Road Bonds, Series 2011 (the "Bonds").

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions, Chapters 49 and 54 of the Texas Water Code, an election held within the District and a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, NNP-Telfair LP (the "Developer") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from November 1, 2011 with interest payable each September 1 and March 1, beginning March 1, 2012 (the "Interest Payment Date"), and will mature on the dates and in the amounts and pay interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, the Board has appointed Wells Fargo Bank, N.A. in Fort Worth, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Houston, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary bank arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The District also maintains a Water, Sewer and Drainage Debt Service Fund that is not pledged to the bonds. Funds in the Water, Sewer and Drainage Debt Service Fund are not available to pay principal and interest on the Bonds.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Fort Bend County, the City, or any entity other than the District.

## **Funds**

In the Bond Resolution, the Road Debt Service Fund is created, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds and eighteen (18) months of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Road Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of the entire system (as herein defined) will be used as described in the Bond Resolution or ultimately transferred to the Road Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "THE SYSTEM" for a complete description of the use of Bond proceeds and the projects related thereto.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2020, prior to their scheduled maturities, in whole or from time-to-time in part, in integral multiples of \$5,000 on September 1, 2019, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

## **Authority for Issuance**

At a bond election held within the District, voters of the District authorized the issuance of \$37,675,000 principal amount of unlimited tax bonds for road improvements. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the consent of the City of Sugar Land, the terms and provisions of Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas, and the Bond Resolution.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

## **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefore, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

### **Lost, Stolen or Destroyed Bonds**

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Resolution 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 national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

### **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$37,675,000 principal amount of bonds for road purposes. After the issuance of the Bonds, the District will have \$34,470,000 of unlimited tax road bonds authorized but unissued.

The District's voters have authorized the issuance of \$86,450,000 principal amount of bonds for the purpose of constructing and or acquiring a waterworks, sanitary sewer and storm sewer system and \$56,200,000 principal amount of bonds for refunding purposes. The District currently has \$61,530,000 of unlimited tax bonds for a waterworks, sanitary sewer and storm sewer system as well as all of the bonds authorized for refunding purposes authorized but unissued. After the issuance of the Bonds, the District will have \$34,470,000 of unlimited tax road bonds authorized but unissued.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Current state law limits the outstanding principal amount of such bonds to an amount not to exceed one percent of the value of the taxable property in the District. The District's voters authorized \$7,600,000 principal amount of unlimited tax bonds for the development and maintenance of recreational facilities at a election held within the District on September 10, 2005, all of which remain authorized but unissued. Like other bonds of the District (other than road bonds), such bonds require the approval of the TCEQ and the Attorney General. In addition, the District must first obtain approval of the City to issue any bonds.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (a) approval of a detailed fire plan by the TCEQ; (b) authorization of the detailed fire plan and bonds for such purposes by the qualified voters in the District; (c) approval of bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. The Board has not considered a fire plan or calling an election at this time for such purposes. Because the District is located in the City, such service is provided by the City.

## **Dissolution of the District**

Under Texas law, the District may be dissolved by the City without the District's consent. Pursuant to the Utility Agreement between the District and the City, the City may not dissolve the District until:

1. At least 90% of the developable acreage within the District has been developed with water, wastewater and drainage facilities. (Developable acreage means the total acreage in the District less acreage associated with land used for roads, utility easements, drainage easements, levee easements, lakes, creeks, bayous and open space); and
2. The landowner developing within the District or the Developer has been reimbursed for such facilities by the District to the maximum extent permitted by the rules of the TCEQ or the City assumes the obligation of the District for such reimbursement under such rules.

If the District is abolished, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District within ninety (90) days thereafter. Prior to dissolution by the City, the District shall have the opportunity to discharge any obligations of the District by selling its bonds or by causing the City to sell bonds of the City in an amount necessary to discharge such obligations. Dissolution of the District by the City is a policymaking matter within the discretion of the Mayor and the City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur. Moreover, no representation is made concerning the ability of the City to make debt service payments should dissolution occur. See "Remedies in Event of Default" below.

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

## **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

## **Legal Investment and Eligibility to Secure Public Funds in Texas**

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

“(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.”

“(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.”

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which might apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

### **Defeasance**

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

## **BOOK-ENTRY-ONLY SYSTEM**

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed

Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 MMI 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 Bonds 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. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

## **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND**

All land in the District is located within the corporate limits of the City. The City and the District have entered into the Utility Agreement, dated July 21, 2005, which obligates the District to acquire, construct and extend water, wastewater and storm drainage facilities (the "System") to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City. The City will then operate and maintain such facilities, and be responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in the City. Pursuant to the Utility Agreement with the District, the City has agreed to rebate to the District a portion of City taxes collected on taxable property within the District. Pursuant to the Utility Agreement, the City has agreed to rebate to the District fifty percent (50%) of such City taxes collected upon taxable property within the District beginning with taxes collected for the 2006 tax year, the District's initial year of taxation and continuing each year thereafter until the year 2046 and thereafter the City's payment obligation shall cease and the City shall not pay any portion of City taxes to the District. The amount of rebate payment will vary with changes in the City's tax rate and tax exemptions and the District's appraised valuation and growth rate. Consequently, the amounts subject to rebate by the City under the formula will vary from year to year. Any significant reduction in the amount of the tax rebate could increase the District's rate of taxation.

The District will retain a security interest in the System to secure the City's performance under the Utility Agreement until the Bonds and any future bonds have been discharged, at which time the District will execute a release of such security interest, and the City will then own the System free and clear, and the City's obligation to make payments to the District will terminate if it has not previously ceased. The District and the City recognize that the District will levy its own annual ad valorem tax to secure additional funds for payment of the Bonds and any additional bonds.

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

See "THE BONDS—Sources of Payment" and "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Utility Agreement Between the District and the City of Sugar Land."

## USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to pay the construction costs associated with the following items. See “THE ROADS.”

The construction costs below were compiled by LJA Engineering, Inc., the District's engineer (the “Engineer”). Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and First Southwest Company (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs have been reviewed by the District's auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used.

### I. CONSTRUCTION COSTS

• Wescott Avenue Bridge .....	\$973,898
• Wescott Avenue Phase 4 .....	453,148
• Meadowcroft Boulevard Bridge .....	750,000
• Contingencies .....	183,853
• Engineering, Geotechnical, and CPS .....	<u>250,088</u>
<b>Total Construction Costs.....</b>	<b>\$2,610,987</b>

### II. NON-CONSTRUCTION COSTS

• Legal Fees.....	\$95,125
• Financial Advisory Fees .....	64,100
• Capitalized Interest (18 months; estimated at 6.00%) .....	288,450
• Developer Interest.....	12,936
• Underwriter’s Discount (estimated at 3.00%) .....	96,150
• Attorney General Fee.....	3,205
• Road District Creation Report .....	10,027
• Bond Issuance Expenses.....	<u>24,020</u>

**Total Non-Construction Costs .....** **\$594,013**

**TOTAL BOND ISSUE REQUIREMENT .....** **\$3,205,000**

## **TELFAIR**

The District is part of the 2,018 acre master-planned community of Telfair, consisting of the District and three other municipal utility districts. Approximately 2,542 single-family residential lots have been or are being constructed in Telfair, including 866 lots in the District. Recreational amenities within Telfair include a 2,200 square foot visitors center and central sales office, a lake system, a greenbelt system, over five miles landscaped trails, eleven neighborhood parks each with open space and playground and two recreational pools, a sand volley ball court and a playground. In addition, the Houston Museum of Natural Science, Sugar Land branch, is located in a 43,000 square foot historic building located in the District.

The City of Sugar Land has also created Tax Increment Reinvestment Zone No. 4 (the "TIRZ"), which overlaps a portion of commercial acreage located in Telfair, as a financing vehicle of additional improvements. The TIRZ has no taxing power and pays its debt service obligation solely from the contribution of taxes from participating taxing entities. The District has agreed to participate in the TIRZ by contributing the amount of the City's rebate applicable to the taxable commercial property (approximately 112 acres where no commercial improvements currently exists) located in the District and in the TIRZ.

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the TCEQ dated April 1, 2005, after a hearing on a petition for creation submitted by the Developer. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop roads and parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City, within whose boundaries the District lies, the District is required to observe certain requirements of the City which: limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, drainage facilities, road purposes and park and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the City and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

### **Description and Location**

The District contains approximately 696 acres of land and is located approximately 22 miles southwest of the central downtown business district of the City of Houston and lies wholly within the boundaries of the City of Sugar Land. The District also lies within the boundaries of the Fort Bend Independent School District. Access to the District is provided by U.S. Highway 59 to University Boulevard. See "AERIAL PHOTOGRAPH."

**Land Use**

The District currently includes approximately 329 developed acres of single-family residential development (866 lots), approximately 57 acres currently being developed (195 lots), approximately 179 undevelopable acres (drainage and pipeline easements, street rights-of-way, lake reserves, recreation and utility sites), approximately 5 acres where the Houston Museum of Natural Science Sugar Land is located (non-taxable), approximately 7 acres where the Telfair recreation site is located and approximately 119 developable acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the District.

	<u>Approximate Acres</u>	<u>Lots</u>
<u>Single-Family Residential</u>		
Telfair:		
Section Three .....	13	37
Section Four .....	36	102
Section Seven .....	25	73
Section Eight .....	8	21
Section Eleven (a) .....	25	64
Section Twelve .....	23	39
Section Sixteen .....	21	56
Section Seventeen .....	50	138
Section Eighteen .....	47	127
Section Twenty .....	23	48
Section Twenty-One .....	21	58
Section Twenty-Two .....	15	45
Section Twenty-Three .....	22	58
Section Thirty-Three (b) .....	38	125
Section Thirty-Four (b) .....	<u>19</u>	<u>70</u>
Subtotal .....	386	1,061
Houston Museum of Natural Science .....	5	---
Telfair Recreation .....	7	---
Future Development .....	119	---
<u>Non-Developable (c) .....</u>	<u>179</u>	<u>---</u>
Totals .....	696	1,061

- (a) This section includes the model home park.
- (b) These sections are under construction with an expected completion date in the fourth quarter of 2011.
- (c) Includes public rights-of-way, detention, open spaces, easements, lake reserves and recreation and utility sites.

**Status of Development**

Home construction in the District began in 2006. As of July 31, 2011, 817 homes were completed (805 occupied, 12 unoccupied of which 6 were not under contract to a homebuyer), 9 homes were under construction and 40 vacant developed lots were available for home construction. In addition, 195 lots are under construction with an expected completion date of the fourth quarter of 2011. Homes within the District range in price from approximately \$275,000 to \$1,000,000. The estimated population in the District (based upon 3.5 persons per occupied single-family residence) is 2,817. See “THE DEVELOPER—Homebuilding” above.

**Future Development**

The District is currently planned as a primarily single-family residential and commercial development. Approximately 119 developable acres of land currently within the District are not yet fully served with water distribution and supply, wastewater collection and treatment or storm drainage facilities (excluding 57 acres where utility construction is current underway for 195 lots). While the Developer anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. See “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments—Undeveloped Acreage” and “—Future Debt.” The Engineer has stated that under current development plans the remaining authorized but unissued bonds (\$103,600,000) should be sufficient to finance the construction of water, wastewater, storm drainage, road and recreation facilities to complete development of the District.

## **THE DEVELOPER**

### **Role of a Developer**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful.

### **NNP-Telfair LP**

The Developer of the acreage located within the District which has been developed and is being marketed as Telfair is NNP-Telfair L.P., a Texas limited partnership (the "Developer"). The Developer was created for the sole purpose of developing Telfair and its only substantial asset consists of the land in Telfair.

The general partner of the Developer is NNP-TV Communities, LP, a Texas limited partnership ("NNP-TV"), and its limited partners are Newland National Partners, LP, a California limited partnership ("NNP"), and American Newland Communities, LP, a Delaware limited partnership. The general partner of NNP-TV is NNP-TV Management, LLC, a Delaware limited liability company, and its limited partner is NNP. American Newland Communities, LP is a planned community developer in the United States.

NNP was formed on October 14, 1999 between American Newland, LLC as general partner, and the State of California Public Employees' Retirement System ("CalPERS") and American Newland Investors, LLC ("ANI") as limited partners. The purpose of NNP is to make investments in the preparation and development of single-family residential projects located in the United States for subsequent sales of land parcels which meet certain criteria as defined by CalPERS. CalPERS is committed to providing revolving capital of \$330,000,000 to NNP for its activities. Land development of Telfair is directly financed via \$15 million promissory note with Texas Capital Bank, National Association maturing March 2014. The note is secured by, among other criteria, a first lien deed of trust upon Telfair property within the District. As of August 31, 2011, total outstanding borrowings respective to the revolving credit note were \$12,029,188.

Development of Telfair is being managed by Newland Communities, LLC, interests in which are wholly owned by American Newland Communities, L.P. The principals, officers and managers of Newland Communities, LLC have provided planning, development and management as owners, joint venture partners and/or managers for multi-purpose residential and commercial projects in the United States and Canada for more than thirty-four years.

### **Homebuilding**

Homebuilders actively conducting building programs within the District are Darling Homes, Perry Homes, Village Builders, David Weekely Homes, Trendmaker Homes, Huntington Homes, Highland Homes, Wilshire Homes, Newmark Homes and Partners in Building. Homebuilders in the District contract directly with the Developer and have no obligation to or agreement with the District to construct any homes or other improvements in the District.

## MANAGEMENT OF THE DISTRICT

### Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. None of the Board members reside within the District; however, each Board member owns land within the District subject to a note and deed of trust in favor of the Developer. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board</u>	<u>Term Expires</u>
Bridget Wanninger	President	May 2014
Michael Smith	Vice President	May 2012
Paula Stephens	Secretary	May 2012
Gary Justice	Assistant Vice President	May 2014
David Keene	Assistant Secretary	May 2012

### District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: First Southwest Company serves as the District's 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.

Auditor: The District's audited financial statement for the fiscal year ended June 30, 2011, was prepared by McGrath & Co., PLLC. See APPENDIX A. A copy of the Management Letter from the District's auditor to the District's Board of Director's relating to the District's financial reporting under "Statement of Auditing." Standards No. 115, including the District's response thereto, is included in APPENDIX A. The District has engaged McGrath & Co., PLLC to prepare the June 30, 2011, financial statement.

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

Tax Appraisal: The Fort Bend Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Ms. Esther Flores of Tax Tech, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (the "Bookkeeper") for bookkeeping services.

## **THE ROADS**

The Road System (the “Roads”) serves residents of the District by providing access to major thoroughfares and collectors within Telfair and the City of Sugar Land area. The Roads are comprised of University Boulevard, New Territory Boulevard, Telfair Avenue, Wescott Avenue and Meadowcroft Boulevard. These Roads function as major thoroughfares and collectors by conveying the residents of the District to U.S. Highway 59 and State Highway 6. The proceeds of the Bonds will fund construction of Wescott Avenue Phase 4, Wescott Avenue Bridge and Meadowcroft Boulevard Bridge projects.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the District's water, wastewater and storm drainage system as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District and Fort Bend County Levee Improvement District No. 17. Fort Bend County, the City of Sugar Land, and the Texas Department of Health also exercise regulatory jurisdiction over the District's system.

### **Water Supply and Wastewater Treatment**

Residents of the District receive water and wastewater treatment service from the City of Sugar Land pursuant to a Utility Agreement between the District and the City. As a condition of such service, the Utility Agreement obligates the District to acquire, construct, and extend water, sanitary sewer and drainage facilities (the “System”) to serve land in the District and, when completed in accordance with approved plans and specifications, to convey title to the System to the City. The City then operates and maintains the System, and is responsible for establishing water and sewer rates and billing and collecting for such services. The Utility Agreement provides that the District retains a security interest in the System to secure the City's performance under the Utility Agreement until the District's bonds have been fully paid, at which time the District will execute a release of such security interest, and the City will own the System unencumbered. The District has agreed to extend the System to serve future users as necessary so that ultimately all land owners in the District will be able to receive services from the System. However, the District's obligation to extend the System is conditioned upon the Developer's continuing with its development program, the City's performing under the provisions of the Utility Agreement, the satisfaction of certain determinations of economic feasibility, governmental agency approvals and the ability of the District to sell additional bonds.

The Utility Agreement further requires the District to pay the City a capital recovery charge (the “City Connection Charge”) to purchase water supply and wastewater treatment capacity in the City's existing system. The City Connection Charge is set by the City and may be amended without the District's consent at any time. The District has purchased sufficient capacity to serve all of the single family residential lots developed in the District.

The District has also entered into an agreement with Fort Bend County MUD No. 136 (the “Master District”) to construct certain regional water, sewer and drainage improvements within Telfair. The District is obligated to pay a pro-rata share of the costs of these Master District improvements as a capital recovery charge (the “Master District Connection Charge”). The Master District Connection Charge is set by the Master District and may be amended without the District's consent at any time.

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

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 866 lots in the District and are under construction for an additional 195 lots. See “THE DISTRICT—Land Use.”

### **Flood Protection**

A majority of the land within the boundaries of the District is protected from the Brazos River flood plain by levees constructed and maintained by LID 17. All the acreage within the District has been officially removed from the floodplain with the approval of the LID 17 Tract Four Letter of Map Revision (the “LOMR”) issued by the Federal Emergency Management Agency (“FEMA”) on September 22, 2008 and the LID 17 Tract Five LOMR issued by FEMA on April 1, 2009.

***Federal Emergency Management Agency Requirements.*** FEMA has commissioned a study to reevaluate the “base flood elevation” (commonly referred to as the 100-year flood plain elevation) in Fort Bend County. The study concluded that the level of the 100-year flood plain is higher than current standards. Therefore, land currently mapped outside the flood plain could be remapped inside the flood plain. The District’s engineer has concluded that the new levee recently constructed by LID 17 is of sufficient height to meet anticipated new FEMA, City of Sugar Land and Fort Bend County requirements. LID 17 submitted a levee recertification package to FEMA on November 12, 2009. LID 17 received approval of its recertification package on December 30, 2009. Preliminary floodplain maps were released for comment in October 2009. The 90 day appeals/protest period began on July 21, 2010 and ended on October 19, 2010. It is unknown at this time when final determinations will be made by FEMA and when any related map revisions will be completed and finalized.

***Flooding Due to Levee Breach or Overtopping.*** According to the LID 17 engineer, the LID 17 levee and drainage system have been designed and constructed to all current standards. However, the levee system does not protect against all flooding scenarios. There are two instances in which flooding could occur in the District: 1) an overtopping of the levee, or 2) a failure (or breach) of the levee system.

An overtopping of the levee could occur if the Brazos River or its tributaries reach flood stages higher than the 100-year event. The “100-year event” means the river elevation which has a statistical 1% chance of occurring in any given year. Current FEMA regulations require an earthen levee to be constructed a minimum of three feet above the level of a 100-year event.

In addition to the risk of overtopping, a portion of the District would experience flooding if the levee failed (or breached) while the Brazos River (or its tributaries) were at flood state of less than the 100-year event. To mitigate the risk, LID 17 performs weekly inspections of the levee to observe any visible deterioration of the levee that is in need to repair.

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

2011 Taxable Assessed Value .....	\$388,386,903 (a)
Estimated Taxable Assessed Value as of September 1, 2011 .....	\$395,489,204 (b)
Gross Direct Debt Outstanding .....	\$26,220,000 (c)
Estimated Overlapping Debt.....	<u>43,546,934 (d)</u>
Gross Direct Debt and Estimated Overlapping Debt .....	\$69,766,934
Ratios of Gross Direct Debt to:	
2011 Taxable Assessed Value .....	6.75%
Estimated Taxable Assessed Value as of September 1, 2011.....	6.63%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2011 Taxable Assessed Value .....	17.96%
Estimated Taxable Assessed Value as of September 1, 2011.....	17.64%
Water and Sewer Debt Service Fund Balance as of September 15, 2011 .....	\$1,289,761 (e)
Road Debt Service Fund Balance (Eighteen Months of Capitalized Interest) .....	<u>288,450</u>
Total Funds Available for Debt Service.....	\$1,578,211
Operating Funds Available as of September 15, 2011 .....	\$73,073
Capital Project Fund Balance as of September 15, 2011 .....	\$1,183,146

- (a) The Fort Bend County Appraisal District (the "Appraisal District") has certified \$380,109,913 of taxable value. An additional \$8,276,990 of taxable value remains uncertified and is subject to downward adjustment prior to certification. The 2011 Taxable Assessed Value shown here represents the certified value plus the uncertified value.
- (b) Provided by the Appraisal District for information purposes only. Such amount reflects the estimated value of improvements on September 1, 2011. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. No taxes will be levied upon such amount until it is certified by the Appraisal District.
- (c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt—Overlapping Taxes."
- (e) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to the Outstanding Bonds (as defined herein) and a portion will be allocated to the Bonds (see "FINANCIAL INFORMATION (UNAUDITED)—Outstanding Bonds"). The Water, Sewer & Drainage Debt Service Fund is not pledged to the Bonds nor will funds deposited into the Road Debt Service Fund be pledged to bonds sold for purposes of water, sewer and drainage. The District will capitalize eighteen (18) months of interest from Bond proceeds and such capitalized interest will be deposited into the Road Debt Service Fund for the Bonds. The amount of interest to be capitalized from Bond proceeds is estimated at 6.00%. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

**Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the District portfolio.

**Outstanding Bonds**

The District has previously issued \$24,920,000 principal amount of bonds, of which \$23,015,000 principal amount is outstanding as of the date hereof (the "Outstanding Bonds").

<u>Series</u>	<u>Original Principal Amount</u>	<u>Outstanding Bonds</u>
2007	\$5,760,000	\$5,285,000
2008	7,425,000	6,945,000
2009	6,650,000	6,090,000
2009A	<u>5,085,000</u>	<u>4,695,000</u>
	\$24,920,000	\$23,015,000

**Debt Service Requirements**

The following sets forth the actual debt service on the Outstanding Bonds (see “Outstanding Bonds” in this section) and estimated debt service on the Bonds at an estimated interest rate per annum of 5.25%. This schedule does not reflect the fact that an amount equal eighteen (18) months of interest will be capitalized from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Debt Service Requirements
		Principal	Interest	Total	
2012	\$ 1,959,281.26		\$ 140,218.75	\$ 140,218.75	\$ 2,099,500.01
2013	1,936,091.26	\$ 80,000	168,262.50	248,262.50	2,184,353.76
2014	1,906,791.26	85,000	164,062.50	249,062.50	2,155,853.76
2015	1,881,416.26	90,000	159,600.00	249,600.00	2,131,016.26
2016	1,859,611.26	95,000	154,875.00	249,875.00	2,109,486.26
2017	1,831,211.26	100,000	149,887.50	249,887.50	2,081,098.76
2018	1,810,271.26	105,000	144,637.50	249,637.50	2,059,908.76
2019	1,787,716.26	110,000	139,125.00	249,125.00	2,036,841.26
2020	1,771,518.76	115,000	133,350.00	248,350.00	2,019,868.76
2021	1,753,773.76	120,000	127,312.50	247,312.50	2,001,086.26
2022	1,743,743.76	130,000	121,012.50	251,012.50	1,994,756.26
2023	1,721,498.76	135,000	114,187.50	249,187.50	1,970,686.26
2024	1,706,373.76	140,000	107,100.00	247,100.00	1,953,473.76
2025	1,689,493.76	150,000	99,750.00	249,750.00	1,939,243.76
2026	1,672,781.26	155,000	91,875.00	246,875.00	1,919,656.26
2027	1,653,968.76	165,000	83,737.50	248,737.50	1,902,706.26
2028	1,631,831.26	175,000	75,075.00	250,075.00	1,881,906.26
2029	1,607,593.76	185,000	65,887.50	250,887.50	1,858,481.26
2030	1,590,668.76	195,000	56,175.00	251,175.00	1,841,843.76
2031	1,566,043.76	200,000	45,937.50	245,937.50	1,811,981.26
2032	1,544,025.00	215,000	35,437.50	250,437.50	1,794,462.50
2033	508,575.00	225,000	24,150.00	249,150.00	757,725.00
2034	209,500.00	235,000	12,337.50	247,337.50	456,837.50
Total	\$ 37,343,780.20	\$ 3,205,000.00	\$ 2,413,993.75	\$ 5,618,993.75	\$ 42,962,773.95

Average Annual Debt Service Requirements (2012-2034).....\$1,867,947  
Maximum Debt Service Requirement (2013) .....\$2,184,354

**Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$452,755,000	09/30/11	0.61%	\$2,761,806
City of Sugar Land.....	248,415,000	09/30/11	2.67%	6,632,681
Fort Bend Independent School District.....	951,715,425	08/31/11	1.01%	9,612,326
Fort Bend LID No. 17 (a).....	55,735,000	(a)	44.03%	<u>24,540,121</u>
Total Estimated Overlapping Debt.....				\$43,546,934
The District's Total Direct Debt (b) .....				<u>26,220,000</u>
Total Direct and Estimated Overlapping Debt.....				\$69,766,934

Direct and Estimated Overlapping Debt as a Percentage of:

2011 Taxable Assessed Valuation of \$388,386,903 .....	17.96%
Estimated Assessed Value as of September 1, 2011 of \$395,489,204 .....	17.64%

- (a) Includes \$7,915,000 principal amount of bonds under review at the TCEQ. See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."
- (b) The Bonds and the Outstanding 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 "Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2010 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.

	2010 Tax Rate Per \$100 <u>Assessed Valuation</u>
Fort Bend County (includes Drainage District) .....	\$0.49976
Fort Bend Independent School District .....	1.34000
Fort Bend LID No. 17 (a).....	0.63000
City of Sugar Land.....	<u>0.30000</u>
Total Overlapping Tax Rate.....	\$2.76976
The District (b).....	<u>0.57000</u>
Total Tax Rate.....	\$3.33976

- (a) See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes." LID 17 has levied a total tax rate of \$0.63 for 2011.
- (b) See "TAX DATA—Debt Service Tax—Maintenance Tax." The District has levied a total tax rate of \$0.57 for 2011.

## Operating Fund

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the fiscal years ending June 30, 2007 through June 30, 2011. Accounting principles customarily employed. In the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information. See "INVESTMENT CONSIDERATIONS—District Operations."

	Fiscal Year Ended				
	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2007</u>
Revenues:					
Property Taxes	\$ 125,803	\$ 98,152	\$ 132,325	\$ 66,945	\$ 55,818
City of Sugar Land Tax Rebate	-	-	-	60,967 (a)	-
Penalty and Interest	-	-	-	-	189
Other	424	343	671	228	2,123
Total Revenue	<u>\$ 126,227</u>	<u>\$ 98,495</u>	<u>\$ 132,996</u>	<u>\$ 128,140</u>	<u>\$ 58,130</u>
Expenditures:					
Professional Fees	\$ 63,822	\$ 75,392	\$ 79,195	\$ 91,582	\$ 76,672
Purchased or Contracted Services	11,200	11,150	10,500	10,374	17,764
Repairs and Maintenance	-	-	2,200	520	-
Administrative Expenses	29,170	29,157	36,997	27,842	33,095
Debt Issuance Costs	-	-	-	30,022	-
Other	789	-	709	-	522
Total Expenditures	<u>\$ 104,981</u>	<u>\$ 115,699</u>	<u>\$ 129,601</u>	<u>\$ 160,340</u>	<u>\$ 128,053</u>
NET REVENUES	<u>\$ 21,246</u>	<u>\$ (17,204)</u>	<u>\$ 3,395</u>	<u>\$ (32,200)</u>	<u>\$ (69,923)</u>
Other Financing Sources:					
Developer Advances	\$ -	\$ -	\$ -	\$ 150,000	\$ 60,000
Internal Transfers	-	-	(14,328)	-	-
Total Other Financing Sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14,328)</u>	<u>\$ 150,000</u>	<u>\$ 60,000</u>
General Operating Fund					
Balance (Beginning of Year)	\$ 83,120	\$ 100,324	\$ 111,257	\$ (6,543)	\$ 3,380
General Operating Fund					
Balance (End of Year)	\$ 104,366	\$ 83,120	\$ 100,324	\$ 111,257	\$ (6,543)

(a) Rebates are initially deposited into the District's general operating fund until fully collected and then transferred to the debt service fund. The fiscal year 2008 rebate is represented as a revenue in the general fund due to timing of the audit finalization before the transfer to the debt service fund occurred.

## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Assessed Values and Tax Payments,” “Historical Tax Rate Distribution” and “Tax Roll Information” below and “TAXING PROCEDURES.”

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted September 10, 2005, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.”

### Historical Tax Rate Distribution

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Debt Service Tax	\$ 0.53	\$ 0.53	\$ 0.53	\$ 0.53	\$ 0.53
Maintenance Tax	<u>0.10</u>	<u>0.09</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>
Total	\$ 0.63	\$ 0.62	\$ 0.57	\$ 0.57	\$ 0.57

### Tax Exemptions

For the 2011 tax year, the District has granted a \$10,000 tax exemption for residential homesteads of over 65 and disabled.

### Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than November 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

### Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. See “Tax Roll Information” below.

	Net Certified		Total (b) Tax Levy	Total Collections	
	Taxable Assessed	Tax Rate		As of August 31, 2011	
	<u>Valuation (a)</u>	<u>Rate</u>		<u>Amount</u>	<u>Percent</u>
2006	\$ 8,893,547	0.63	\$ 56,029	\$ 56,029	100.00%
2007	67,082,585	0.63	422,620	422,620	100.00%
2008	150,585,098	0.62	933,628	933,628	100.00%
2009	242,721,259	0.57	1,383,511	1,383,044	99.97%
2010	310,266,461	0.57	1,768,576	1,765,434	99.82%
2011	380,109,913	0.57	2,166,627	(c)	(c)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) In the process of collections.

## Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2007 through 2011 Assessed Valuations and the Estimated Assessed Valuation as of September 1, 2011. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Roll Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions	Value Under Review/Uncertified <sup>(a)</sup>	Net Assessed Valuations
	Land	Improvements	Personal Property				
2007	\$ 38,320,360	\$ 29,271,280	\$ 787,910	\$ 68,379,550	\$ (1,296,965)	\$ -	\$ 67,082,585
2008	70,474,160	81,169,550	1,691,960	153,335,670	(2,750,572)	-	150,585,098
2009	94,570,150	152,671,920	2,104,220	249,346,290	(6,625,031)	-	242,721,259
2010	113,781,190	200,919,310	2,333,580	317,034,080	(6,767,619)	-	310,266,461
2011	124,010,070	261,121,880	2,070,900	387,202,850	(7,092,937)	8,276,990	388,386,903
9/1/11	124,190,070	268,871,880	2,070,900	395,132,850	(7,092,937)	7,449,291	395,489,204

(a) This value is subject to review and downward adjustment prior to certification.

## Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property, and such property's taxable appraised value as a percentage of the certified portion (\$380,109,913) of the 2011 Taxable Assessed Valuation. This represents ownership as of January 1, 2011. Principal taxpayer lists related to the uncertified portion (\$8,276,990) of the 2011 Taxable Value and the Estimated Taxable Assessed Valuation as of September 1, 2011 of \$395,489,204 are not currently available.

<u>Taxpayer</u>	2011 Certified	
	Taxable Assessed Value	% of Taxable Assessed Value
NNP-Telfair LP (a)	\$ 15,744,020	4.14%
Partners in Building LP (b)	4,560,030	1.20%
Aquataina Sugar Land LP	4,156,590	1.09%
Weekley Homes LP (b)	1,184,060	0.31%
Individual	1,165,790	0.31%
Trendmaker Homes Inc (b)	1,081,680	0.28%
Taylor Morrison of Texas Inc. (b)	1,075,740	0.28%
Highland Homes - Houston LTD (b)	994,580	0.26%
Individual	975,350	0.26%
Individual	918,830	0.24%
Total	\$ 31,856,670	8.38%

(a) See "THE DEVELOPER."

(b) See "THE DEVELOPER—Homebuilding."

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2011 Taxable Assessed Valuation of \$388,386,903 (\$380,109,913 certified and \$8,276,990) or the Estimated Taxable Assessed Valuation as of September 1, 2011 of \$395,489,204. The calculations contained in the following table are performed without receipt of the City rebate (see "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND) and represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds, when due, assuming no further increase or any decrease in Taxable Assessed Values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. While the District anticipates using the City tax rebate to pay debt service on the Bonds and the Outstanding Bonds, such revenue is not pledged to the payment of the Bonds or the Outstanding Bonds and is therefore not included in the calculations. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) —Debt Service Requirements".

Average Annual Debt Service Requirement (2012-2034) .....	\$1,867,947
\$0.51 Tax Rate on 2011 Taxable Assessed Value .....	\$1,881,735
\$0.50 Tax Rate on Estimated Taxable Assessed Valuation as of September 1, 2011.....	\$1,878,574
Maximum Debt Service Requirement (2013).....	\$2,184,354
\$0.60 Tax Rate on 2011 Taxable Assessed Value .....	\$2,213,805
\$0.59 Tax Rate on Estimated Taxable Assessed Valuation as of September 1, 2011.....	\$2,216,717

No representation or suggestion is made that the estimate of value as of September 1, 2011 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

**TAXING PROCEDURES**

**Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system. See "TAX DATA—Debt Service Tax" and "—Maintenance Tax."

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

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Fort Bend Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the "Appraisal Review Board").

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the

veteran's residence homestead. Additionally, effective January 1, 2012, 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; provided, however, such exemption shall only become effective if a constitutional amendment proposed by the 82<sup>nd</sup> Texas Legislature, Regular Session, 2011, authorizing the legislature to provide for such an exemption is approved by the voters. See "TAX DATA."

*Residential Homestead Exemptions:* The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. See "TAX DATA."

*Freeport Goods and Goods-in-Transit Exemptions:* A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for tax year 2011 and prior years, but has not taken official action to allow taxation of such goods in transit personal property for tax year 2012 and subsequent years.

### **Tax Abatement**

Fort Bend County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Fort Bend County, Fort Bend Independent School District, the City and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

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

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

### **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Sugar Land (the "City"), Fort Bend County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

### **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets") below, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

### **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 22 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A continued downturn in the economic conditions of Houston and further decline in the nation's real estate and financial markets could continue to adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base.

## **Downturn in Housing Market**

In the past several years the housing and mortgage markets in most parts of the United States have been under pressure due to many economic factors, including the tightening of credit standards, reduction of access to mortgage capital, and interest rate adjustments on many adjustable rate mortgages which have caused property owners to default on their mortgages. Foreclosures have increased to record levels as a result these factors, and residential property values in most areas of the country have generally declined. Through the 2011 certified value, such downturn has not had a significant effect in the District. However, the Fort Bend County area, including the District, has experienced reduced levels of home construction and reduced home values. The District cannot predict what impact, if any, a continued downturn in the national and local housing market may have on the Fort Bend County area market and assessed values in the District.

## **Competition**

The demand for and construction of single-family homes in the District, which is 22 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the southwest portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of 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 directly affects 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.

## **Undeveloped Acreage**

There are approximately 119 developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities necessary for the construction of taxable improvements. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT—Land Use."

## **Utility Agreement with Sugar Land**

All of the land in the District is located within the corporate limits of the City. The City and the District have entered into a Utility Agreement, dated July 21, 2005 (the "Utility Agreement"), which obligates the District to acquire, construct and extend water, wastewater and storm drainage facilities (the "System") to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City. The City will then operate and maintain such facilities, and be responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. The City also levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement with the District, the City has agreed to rebate to the District fifty percent (50%) of such City taxes collected upon taxable property within the District beginning with taxes collected for the 2006 tax year, the District's initial year of taxation and continuing each year thereafter until the year 2046. The amount of rebate payment will vary with changes in the City's tax rate and the District's appraised valuation. Consequently, the amounts subject to rebate by the City under the formula will vary from year to year. The District intends to use such rebate from the City toward the payment of principal of and interest on the Bonds, however, the rebate is not pledged to the payment of principal and interest on the Bonds. Any significant reduction in the amount of the tax rebate may require a corresponding increase in the District's tax rate. See "THE BONDS—Source of Payment."

## **Overlapping Debt and Taxes**

All of the land within the District is located within LID 17, and is subject to taxation by LID 17. LID 17's 2011 Assessed Valuation is \$854,670,495 (\$836,390,244 certified plus \$18,280,251 uncertified) as of January 1, 2011 and it has received an estimate from the Appraisal District as of September 1, 2011 in the amount of \$922,475,615. The 2011 tax rate of LID 17 is \$0.63 per \$100 of appraised valuation (\$0.44 for debt service and \$0.19 for maintenance and operations).. LID 17 has \$55,735,000 principal amount of bonds outstanding (including \$7,915,000 principal amount of bonds currently under review at the TCEQ that LID 17 expects to issue in 2011) and is authorized to issue a maximum of \$125,000,000 in unlimited tax bonds without additional voter approval. LID 17 anticipates the issuance of additional bonds in the future. The District cannot represent whether any of the development planned or occurring in LID 17 will be successful or whether the appraised valuation of the land located within LID 17 will justify continued payment of the LID 17 tax, as well as District taxes, by property owners. Increases in LID 17's tax rate could have an adverse impact upon future development and upon development and home sales within LID 17, which includes the District, and the willingness of owners of property located within the District to pay ad valorem taxes levied by LID 17 and the District.

The District intends that the composite of its tax rate and those of LID 17 and the City, will not exceed \$1.50 per \$100 of appraised valuation, however, the District cannot control the tax rates of the City or LID 17. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates of competing projects in the Harris/Fort Bend County region. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected. A composite tax rate of \$1.50 is higher than the tax rate of many municipal utility districts in the Houston metropolitan area, although such a combined rate is within the set by certain municipal utility districts in the Houston metropolitan area in stages of development comparable with the District.

The current TCEQ rules regarding the feasibility of a bond issue for utility districts in Fort Bend County limit the projected "combined tax rate" attributable to an entity levying a tax for water, wastewater and drainage to \$1.50. In the case of the District, the total "combined tax rate" under current TCEQ rules includes the tax rate of the District, LID 17 and the City. If the total "combined tax rate" specifically attributable to water, sewer, drainage, roads and recreational facilities should ever exceed \$1.50, the District and LID 17 could be prohibited under rules of the TCEQ from selling additional bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT--Overlapping Taxes."

### **Tax Collections Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) —Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

### **Registered Owners' Remedies and Bankruptcy Limitations**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

### **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. The District's voters have authorized the issuance of \$86,450,000 principal amount of bonds for the purpose of constructing and or acquiring a waterworks, sanitary sewer and storm sewer system, \$56,200,000 principal amount of bonds for refunding purposes, \$37,675,000 for road purposes and \$7,600,000 for recreational facilities purposes and could authorize additional amounts. The District currently has \$61,530,000 of unlimited tax bonds for a waterworks, sanitary sewer and storm sewer system as well as all of the bonds authorized for refunding, and park and recreational purposes authorized but unissued. After the issuance of the Bonds, \$34,470,000 of unlimited tax road bonds will remain authorized but unissued. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

After reimbursements made with bond proceeds, the Developer will have been fully reimbursed by the District for all eligible road projects constructed to date. The District intends to issue additional bonds in order to develop the remainder of undeveloped but developable land (approximately 119 acres) currently in the District. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable assessed value in the District. See "THE BONDS—Issuance of Additional Debt."

### **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:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring action to prevent or mitigate pollution;
- 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 municipal utility district or other type of district (“Utility Districts”) 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 injunctive relief as to future compliance and the ability to operate the Utility 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 Utility Districts, including 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 Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston area (“HGB area”) – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2008 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. Both the TCEQ and EPA took comments on the submission of a new State Implementation Plan (“SIP”) which would account for the severe classification of the HGB area, and on March 10, 2010, the Commission adopted a series of SIP revisions and associated rule revisions for the HGB nonattainment area for the 1997 eight-hour ozone standard. New designation submittals to comply with the newly lowered EPA ozone standard are expected to keep the HGB area in severe nonattainment. To provide for reductions in ozone concentrations to reach the newly lowered ozone standard, the EPA and the TCEQ will continue to impose increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA’s standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA’s standards for the HGB area, the TCEQ has proposed SIPs setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. In response to the severe ozone nonattainment designation, the TCEQ adopted additional control technologies in order to achieve attainment, and it is possible that these additional controls could have a negative impact on the HGB area’s economic growth and development.

**Flood Protection.** All of the land within the boundaries of the District is protected from the Brazos River flood plain by levees constructed and maintained by LID 17. All the acreage within the District has been officially removed from the floodplain with the approval of the LID 17 Tract Four Letter of Map Revision (the “LOMR”) issued by the Federal Emergency Management Agency (“FEMA”) on September 22, 2008 and the LID 17 Tract Five LOMR issued by FEMA on April 1, 2009.

**Federal Emergency Management Agency Requirements.** FEMA has commissioned a study to reevaluate the “base flood elevation” (commonly referred to as the 100-year flood plain elevation) in Fort Bend County. The study concluded that the level of the 100-year flood plain is higher than current standards. Therefore, land currently mapped outside the flood plain could be remapped inside the flood plain. The District’s engineer has concluded that the new levee recently constructed by LID 17 is of sufficient height to meet anticipated new FEMA, City of Sugar Land and Fort Bend County requirements. LID 17 submitted a levee recertification package to FEMA on November 12, 2009. LID 17 received approval of its recertification package on December 30, 2009. Preliminary floodplain maps were released for comment in October 2009. The 90 day appeals/protest period began on July 21, 2010 and ended on October 19, 2010. It is unknown at this time when final determinations will be made by FEMA and when any related map revisions will be completed and finalized.

**Flooding Due to Levee Breach or Overtopping.** According to the LID 17 engineer, the LID 17 levee and drainage system have been designed and constructed to all current standards. However, the levee system does not protect against all flooding scenarios. There are two instances in which flooding could occur in the District: 1) an overtopping of the levee, or 2) a failure (or breach) of the levee system.

An overtopping of the levee could occur if the Brazos River or its tributaries reach flood stages higher than the 100-year event. The “100-year event” means the river elevation which has a statistical 1% chance of occurring in any given year. Current FEMA regulations require an earthen levee to be constructed a minimum of three feet above the level of a 100-year event.

In addition to the risk of overtopping, a portion of the District would experience flooding if the levee failed (or breached) while the Brazos River (or its tributaries) were at flood state of less than the 100-year event. To mitigate the risk, LID 17 performs weekly inspections of the levee to observe any visible deterioration of the levee that is in need to repair.

**Wetlands.** Wetlands 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.

## **Marketability of the Bonds**

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

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

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

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

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

Neither the District or Initial Purchaser have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

## **Continuing Compliance with Certain Covenants**

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS."

## **LEGAL MATTERS**

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "THE BONDS," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF SUGAR LAND," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developers for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP, also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No Material Adverse Change**

The obligations of the 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 Preliminary Official Statement.

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## **TAX MATTERS**

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except for certain alternative minimum tax consequences for corporations.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District's Financial Advisor and the Underwriter with respect to matters solely within the knowledge of the District, the District's Financial Advisor and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

Under the Code, taxpayers are required to report on their returns the amount of tax exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

### **Tax Accounting Treatment of Original Issue Discount Bonds**

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") may be less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

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

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

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

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

### **Qualified Tax-Exempt Obligations**

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The Issuer will designate the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the Issuer and entities aggregated with the Issuer under the Code during calendar year 2011 is not expected to exceed \$10,000,000 and that the Issuer and entities aggregated with the Issuer under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2011.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense

## **PREPARATION OF OFFICIAL STATEMENT**

### **Sources and Compilation of Information**

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### **Financial Advisor**

First Southwest Company is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, First Southwest Company has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Consultants**

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Ms. Esther Flores of Tax Tech Inc., and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by LJA Engineers, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The District's audited financial statements for the year ended June 30, 2011, were prepared by McGrath & Co., PLLC. See "APPENDIX A" for a copy of the District's June 30, 2011, financial statements. A copy of the Management Letter from the District's auditor to the District's Board of Director's relating to the District's financial reporting under "Statement of Auditing." Standards No. 115, including the District's response thereto, is included in APPENDIX A.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Waterworks and Sewer System Operating Statement" has been provided by Myrtle Cruz, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

### **Updating the Official Statement**

If subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter, provided, however, that the obligation of the District to the Underwriter to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

## **Certification of Official Statement**

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Resolution, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

### **Annual Reports**

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT, except for Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Financial Statements of the District). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2010. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided.

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

### **Material Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from MSRB**

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through the EMMA internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

**Limitations and Amendments**

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

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchasers from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**Compliance With Prior Undertakings**

During the last five years, the District has complied with its continuing disclosure requirements.

**MISCELLANEOUS**

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

/s/ \_\_\_\_\_  
Secretary, Board of Directors

**AERIAL PHOTOGRAPH**  
(taken September 2011)

**PHOTOGRAPHS OF THE DISTRICT**  
(Taken September 2011)

## **APPENDIX A**

### **Financial Statement of the District for the year ended June 30, 2011**

The information contained in this appendix includes the Annual Audit Report of Fort Bend County Municipal Utility District No. 138 for the fiscal year ended June 30, 2011.