

**OFFICIAL STATEMENT DATED OCTOBER 23, 2018**

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

*The District has designated the Bonds as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations."*

**NEW ISSUE - Book-Entry Only**

**Ratings: S&P Global Ratings (AGM Insured) . . . "AA" (stable outlook)  
 Moody's Investors Service (AGM Insured)..... "A2" (stable outlook)  
 Moody's Investors Service, Inc. (Underlying) . . . "Baa3" (stable outlook)  
 See "BOND INSURANCE" and "RATINGS" herein**

**\$3,500,000**  
**NORTHEAST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1**  
**(A Political Subdivision of the State of Texas, located within Harris County, Texas)**  
**UNLIMITED TAX BONDS, SERIES 2018**

**Dated: November 1, 2018**

**Due: September 1, as shown below**

Principal of the above bonds (the "Bonds") is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N. A., currently in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from November 1, 2018, and is payable on March 1, 2019 (four-month interest payment), and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

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 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 as described herein. See "THE BONDS – Book-Entry-Only System."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer").



**MATURITY SCHEDULE**  
**CUSIP Prefix (a): 66416D**

**\$180,000 Serial Bonds**

<b>Principal Amount</b>	<b>Maturity (Due September 1)</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield (b)</b>	<b>CUSIP Suffix (a)</b>	<b>Principal Amount</b>	<b>Maturity (Due September 1)</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield (b)</b>	<b>CUSIP Suffix (a)</b>
\$40,000	2020	6.50%	2.45%	HK9	\$ 50,000	2022	6.50%	2.75%	HM5
40,000	2021	6.50	2.60	HL7	50,000	2023	6.50	2.90	HN3

**\$105,000 Term Bonds, Due September 1, 2025(c)(d), CUSIP Suffix HQ6(a), Interest Rate 6.50% (Yield 2.95%)(b)**  
**\$115,000 Term Bonds, Due September 1, 2027(c)(d), CUSIP Suffix HS2(a), Interest Rate 6.25% (Yield 3.00%)(b)**  
**\$120,000 Term Bonds, Due September 1, 2029(c)(d), CUSIP Suffix HU7(a), Interest Rate 6.00% (Yield 3.05%)(b)**  
**\$130,000 Term Bonds, Due September 1, 2031(c)(d), CUSIP Suffix HW3(a), Interest Rate 6.00% (Yield 3.10%)(b)**  
**\$135,000 Term Bonds, Due September 1, 2033(c)(d), CUSIP Suffix HY9(a), Interest Rate 4.00% (Yield 4.05%)(b)**  
**\$140,000 Term Bonds, Due September 1, 2035(c)(d), CUSIP Suffix JA9(a), Interest Rate 4.00% (Yield 4.10%)(b)**  
**\$150,000 Term Bonds, Due September 1, 2037(c)(d), CUSIP Suffix JC5(a), Interest Rate 4.00% (Yield 4.15%)(b)**  
**\$240,000 Term Bonds, Due September 1, 2040(c)(d), CUSIP Suffix JF8(a), Interest Rate 4.00% (Yield 4.23%)(b)**  
**\$365,000 Term Bonds, Due September 1, 2044(c)(d), CUSIP Suffix JK7(a), Interest Rate 4.125% (Yield 4.26%)(b)**  
**\$200,000 Term Bonds, Due September 1, 2046(c)(d), CUSIP Suffix JM3(a), Interest Rate 4.125% (Yield 4.28%)(b)**  
**\$1,620,000 Term Bonds, Due September 1, 2048(c)(d), CUSIP Suffix JP6(a), Interest Rate 4.125% (Yield 4.30%)(b)**

- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District (hereinafter defined), the Financial Advisor (hereinafter defined), nor the Underwriter (hereinafter defined) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter (as defined herein). Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed. Accrued interest from November 1, 2018, is to be added to the price.
- (c) The Term Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of Northeast Harris County Municipal Utility District No. 1 (the "District"), as a whole or in part, on September 1, 2023, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

The Bonds constitute the seventh series of unlimited tax bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer and storm drainage system (the "System") to serve the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. SEE "INVESTMENT CONSIDERATIONS." Voters in the District have authorized a total of \$168,000,000 principal amount of bonds for the purpose of acquiring and constructing the System and for refunding bonds issued pursuant to such authorization. Following the issuance of the Bonds, \$152,875,000 principal amount of unlimited tax bonds for the System and refunding will remain authorized but unissued. The District also has \$14,000,000 in bonds authorized but unissued for recreational purposes. See "THE BONDS – Issuance of Additional Debt."

The Bonds, when issued, constitute valid and binding obligations of the District, and are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment." Neither the State of Texas, the City of Houston, Texas, Harris County, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas, the City of Houston, Texas, or Harris County, Texas, is pledged to the payment of the principal of and interest on the Bonds.

The Bonds are offered when, as and if issued by the District, subject among other things to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas. Delivery of the Bonds in book-entry form is expected on or about November 20, 2018.



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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 does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the 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 the Financial Advisor.

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 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 financial condition of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Underwriter (as hereinafter defined) and thereafter only as described under "OFFICIAL STATEMENT - Updating of Official Statement."

Neither the District nor the Underwriter make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important investment considerations and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY."

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the “Underwriter” or the “Initial Purchaser”) to purchase the Bonds bearing the interest rates shown under “MATURITY SCHEDULE” at a price of 97.0% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.371169%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

### **Marketability**

The District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices 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.

The prices and other terms respecting 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 price, 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 PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### **Securities Laws**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as “APPENDIX C” to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On June 26, 2018, S&P announced it had affirmed AGM's insurance financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

### *Capitalization of AGM*

At June 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,221 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,166 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,898 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.



The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

*Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE - Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

*Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

**BOND INSURANCE RISK FACTORS**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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 “BOND INSURANCE” and “RATING” herein. As is stated in this Official Statement under the caption “LEGAL MATTERS - No Material Adverse Change,” the rating of the Insurer’s creditworthiness by any rating agency does not in any manner affect the District’s financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not constitute a change, material or otherwise, in the District’s financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay for the Bonds.

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 nor the Underwriters has 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 “BOND INSURANCE” herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

### **RATINGS**

The Bonds are expected to receive an insured rating of “AA” (stable outlook) from S&P Global Ratings (“S&P”) and “A2” (stable outlook) from Moody’s Investors Service (“Moody’s”) based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the Bonds assigned by Moody’s is “Baa3” (stable outlook).

An explanation of the significance of the foregoing ratings may only be obtained from S&P and Moody’s. The foregoing ratings express only the view of S&P and Moody’s at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P and Moody’s, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the ratings of S&P and Moody’s. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”

**OFFICIAL STATEMENT SUMMARY**

The following summary of certain information contained herein is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

**THE BONDS**

The Issuer .....	Northeast Harris County Municipal Utility District No. 1 (the “District”) is a political subdivision of the State of Texas located within Harris County, Texas. See “THE DISTRICT - General.”
Description .....	\$3,500,000 Unlimited Tax Bonds, Series 2018 are dated November 1, 2018, and mature on September 1 in the years and principal amounts shown on the cover page of this Official Statement. \$180,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2020 through 2023, both inclusive, in the respective principal amounts set forth on the cover page of this Official Statement. \$3,320,000 of the Bonds are issued as term bonds maturing on September 1 in each of the years 2025, 2027, 2029, 2031, 2033, 2035, 2037, 2040, 2044, 2046 and 2048, in the respective principal amounts set forth on the cover page of this Official Statement (collectively, the “Term Bonds”). Interest on the Bonds accrues from November 1, 2018, at the rates shown on the cover hereof, and is payable on March 1, 2019 (four-month interest payment), and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. The Term Bonds scheduled to mature on and after September 1, 2025, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2023, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof, so called for redemption, plus accrued interest to the date of redemption. See “THE BONDS.”
Book-Entry-Only System .....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (as defined herein), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (as defined herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System”).

Source of Payment .....

Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS - Source of Payment,” “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates” and “TAX DATA - Tax Rate Calculations.”

Use of Proceeds .....

Proceeds of the sale of the Bonds will be used by the District to (i) make payment to Woodmere Development Co., Ltd., the developer of Edgewood Village and Sheldon Ridge located within the District (defined below under the caption “Developer”) for (a) the remaining costs of water, wastewater, and drainage facilities to serve Sheldon Ridge, Section 1; (b) construction costs of Sheldon Ridge Phase 1 Detention Pond; (c) clearing and grubbing, and rough grading, to serve Sheldon Ridge, Sections 2 through 4 and Sheldon Ridge Phase 2 Detention Pond; and (d) water, wastewater, and drainage facilities to serve Edgewood Village, Section 1B; (ii) pay Storm Water Pollution Prevention Plans costs; (iii) pay engineering fees associated with the foregoing projects; (iv) pay interest to the Developer on advances that it has made on behalf of the District; (v) certain operating costs advanced by the Developer; and (vi) pay for administrative and issuance costs, legal fees, fiscal agent’s fees, a fee to the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), a fee to the Attorney General of Texas, engineering fees, costs associated with the operation of the District, and certain financing costs related to the issuance of the BAN (defined below) and the Bonds. The District will also retire its Bond Anticipation Note, Series 2017 (the “BAN”), including payment of principal of and interest thereon, with a portion of the proceeds of the sale of the Bonds. The District utilized the proceeds of the BAN to interim finance certain of the aforementioned facilities that it is financing with the proceeds of the sale of the Bonds. See “THE BONDS - Use and Distribution of Bond Proceeds.”

Payment Record .....

The Bonds are the seventh series of bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer and storm drainage system (the “System”) to serve the District. The District has previously issued Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”), Unlimited Tax Bonds, Series 2011 (the “Series 2011 Bonds”), Unlimited Tax Bonds, Series 2014 (the “Series 2014 Bonds”), Unlimited Tax Bonds, Series 2015 (the “Series 2015 Bonds”), Unlimited Tax Bonds, Series 2016 (the “Series 2016 Bonds”), Unlimited Tax Bonds, Series 2017 (the “Series 2017 Bonds”) and Unlimited Tax Refunding Bonds, Series 2017 (the “Series 2017 Refunding Bonds”), (collectively, the “Prior Bonds”). The District has timely made all payments of interest on and principal of the Prior Bonds when due. Before the issuance of the Bonds, the aggregate principal amount of the

Prior Bonds that had not been previously retired by the District was \$11,030,000 (collectively, the “Outstanding Bonds”), and after issuance of the Bonds, the total of the District's direct bonded indebtedness owing, consisting of the Outstanding Bonds and the Bonds, will be \$14,530,000. See “THE BONDS - Outstanding Bonds and Payment Record.”

Authorized But Unissued Bonds .....	\$152,875,000 for waterworks, wastewater, and drainage facilities (after issuance of the Bonds) and for refunding purposes. See “THE BONDS - Issuance of Additional Debt.” The District’s voters also have authorized \$14,000,000 unlimited tax bonds for constructing recreational facilities and refunding bonds issued pursuant to such authorization. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”
Municipal Bond Insurance .....	Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE.”
Municipal Bond Ratings .....	S&P Global Ratings (AGM insured) “AA” (stable outlook). Moody’s Investors Service (AGM insured) “A2” (stable outlook). Moody’s Investors Service (Underlying) “Baa3” (stable outlook). See “BOND INSURANCE” and “RATINGS.”
Bond Counsel .....	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”
Disclosure Counsel .....	McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Disclosure Counsel to the District.
Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS - Qualified Tax Exempt Obligations.”

THE DISTRICT

Description .....	The District is a political subdivision of the State of Texas, created by Order of the Texas Water Rights Commission (predecessor to the TCEQ), on July 18, 1978. The District contains approximately 902.78 acres of land. The District is
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located entirely within Harris County, Texas, approximately 15 miles east/northeast of the central business district of the City of Houston, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). The District is comprised of four non-contiguous tracts two of which are being developed and are expected to be utilized primarily for single-family residential purposes, one of which is expected to be developed for light industrial purposes and one of which is expected to be utilized for commercial development: the Edgewood Village Subdivision (“Edgewood”) and Sheldon Ridge Subdivision (“Sheldon Ridge”) are the two residential subdivisions, Riverwood (“Riverwood”) is the light industrial tract and the Terra Grezza Tract (“Terra Grezza Tract”) is the tract that is expected to be utilized for commercial development. See “Development and Home Construction.” The two non-contiguous residential subdivisions are served by separate water supply, wastewater treatment and stormwater drainage systems. The Terra Grezza Tract will be served by the Edgewood system. The Riverwood tract may be served by a separate water supply, wastewater treatment and stormwater drainage system or by private utilities on a separate water and sewer system. See “THE SYSTEM.” The District is accessed from the Houston central business district by traveling east on Interstate 10 to Beltway 8 (Sam Houston Tollway), then north approximately 3 miles along Beltway 8 to Old Beaumont Highway 90 (Old US Highway 90) and then east along Old Beaumont Highway. Edgewood and Riverwood have frontage on Old Beaumont Highway, and Sheldon Ridge is located approximately 0.6 miles north of Old Beaumont Highway along Sheldon Road. Additionally, Edgewood has frontage on new State Highway 90. Sheldon Ridge can be accessed off new State Highway 90 by exiting at Sheldon Road and traveling north. The Terra Grezza Tract is located at the northwest corner of US Highway 90 and Beltway 8. The District lies wholly within the Sheldon Independent School District. See “THE DISTRICT - General” and - “Description,” and “APPENDIX A - LOCATION MAP.”

Authority .....

The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - General.”

Development and Home Construction .....

As of September 1, 2018, the District contained 743 homes, including 27 homes under construction, 108 vacant fully developed single-family residential lots that are available for home construction and 51 additional single-family residential lots that are under development. See “BUILDERS.” According to the District’s Engineer, underground water distribution, wastewater collection, and storm drainage/detention facilities and street paving have been

completed by Woodmere Development Co., Ltd. (“Woodmere” or the “Developer”), the developer of Edgewood Village and Sheldon Ridge (defined below under the caption “Developer”) to serve the 851 fully developed single-family residential lots located in the subdivisions that have been platted as Edgewood Village, Sections 1A, 1B, and 2 through 5, and Sheldon Ridge, Sections 1 through 5 and 8 through 10 (a total of approximately 159.4 acres) in the District as is delineated in the chart that appears in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION.” In addition, Edgewood Village, Section 6 (51 lots on approximately 8.8 acres) is currently under development within the District, with completion anticipated by approximately November 2018. Long Lake, Ltd. (“Long Lake”), doing business as Lake Ridge Builders and Pride Builders, has constructed and is constructing homes on lots purchased from Woodmere in Edgewood Village and Sheldon Ridge, respectively, as is described below under the caption “Builders” and as is enumerated in the chart that appears in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION.” BGM Land Investments, Ltd. (“BGM”), owns approximately 212.3 acres of currently undeveloped land located within the District, approximately 193.6 acres of which are expected to be developed into approximately 1,308 future single-family residential lots, and approximately 18.7 acres of which are designated for future commercial development. It is currently expected that Woodmere will purchase land from BGM on an as-need basis with the intention of developing such land into single-family residential lots as development of the District progresses. Tracts of approximately 228 acres and 82 acres of currently undeveloped land located within the District that are currently expected to be developed for light industrial purposes are owned by McAlister Opportunity Fund and Pescador Partners, Ltd., respectively. Approximately 22.5 acres of currently undeveloped land located within the District that are expected to be utilized for future commercial development are owned by Terra Grezza Investments. However, since no party has any obligation to the District to undertake or complete the development of any of such currently undeveloped land according to any particular timetable or at all, the District cannot represent that the development thereof will be undertaken or completed nor can the District represent that Woodmere will purchase any additional land from BGM. Approximately 189.8 acres located within the District are contained within storm water drainage/detention facilities, are designated as park/recreational or open spaces, are contained within District plant sites, or are otherwise not available for development. See INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments,” DEVELOPER,” “FUTURE DEVELOPMENT” and “TAX DATA - Principal 2018 Taxpayers.”

In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

Developer .....

The developer of land within the District is Woodmere Development Co., Ltd., a Texas limited partnership (“Woodmere” or the “Developer”), the general partner of which is Woodmere GP, L.L.C., a Texas limited liability company. Woodmere has acquired approximately 159.4 acres of land located in the District from a related party, BGM Land Investments, Ltd. (“BGM”), a Texas limited partnership, the general partner of which is G.P. Landvest L.L.C. Woodmere has developed such 159.4 acres into 851 fully developed single-family residential lots that have been platted as Edgewood Village, Sections 1A, 1B, and 2 through 5, and Sheldon Ridge, Sections 1 through 5 and 8 through 10. In addition, Woodmere has acquired approximately 8.8 additional acres of land from BGM that Woodmere is currently developing as Edgewood Village, Section 6 (51 single-family residential lots) within the District, with completion anticipated by November 2018. BGM owns approximately 212.3 acres of undeveloped land in the District, approximately 193.6 acres of which are expected to be developed into approximately 1,308 future single-family residential lots, and approximately 18.7 acres of which are designated for future commercial development. It is currently expected that Woodmere will purchase land from BGM on an as-needed basis with the intention of developing such land into single-family residential lots as development of the District progresses. After developing the land, Woodmere sells the developed lots on an as-needed basis to a related party, Long Lake, Ltd. (“Long Lake”), a Texas limited partnership that is doing business in the District as Lake Ridge Builders and Pride Builders, which has constructed and is constructing homes within the District as is described in the chart that appears in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION” and under the caption “BUILDERS.” Woodmere, BGM and Long Lake are all under common management and common ownership and, through one or more of such entities, have been in the land development business since 1997.



Builders .....

According to Long Lake, it is currently constructing homes in Edgewood Village under the trade name Lake Ridge Builders which range in size from approximately 1,514 to 3,164 square feet of living area and in sales price from approximately \$190,000 to \$240,000.

According to Long Lake, it is currently constructing homes in Sheldon Ridge under the trade name Pride Builders which range in size from approximately 1,489 to 3,086 square feet of living area and in sales price from approximately \$180,000 to \$230,000.

Although Long Lake has reported the descriptions of the homes that it is currently constructing in the District under the aforementioned trade names, Lake Ridge Builders and Pride Builders (together, the "Builders"), to be accurate as of the date of this Official Statement, Long Lake may change the types, sizes and sales prices of the homes which it chooses to construct within the District entirely within its discretion, or may suspend home construction activity entirely.

#### **INVESTMENT CONSIDERATIONS**

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION**  
**(Unaudited)**

2018 Assessed Valuation .....		\$122,629,093(a)
(As of January 1, 2018)		
See "TAX DATA" and "TAXING PROCEDURES"		
Estimated Valuation at September 1, 2018 .....		\$136,685,604(b)
(As of September 1, 2018)		
See "TAX DATA" and "TAXING PROCEDURES"		
Direct Debt:     Outstanding Bonds .....	\$ 11,030,000	
The Bonds .....	<u>3,500,000</u>	
Total .....		\$ 14,530,000(c)
Estimated Overlapping Debt .....		<u>\$ 10,048,970(c)</u>
Direct and Estimated Overlapping Debt .....		<u>\$ 24,578,970</u>
Direct Debt Ratios		
: as a percentage of 2018 Assessed Valuation .....		11.85%
: as a percentage of Estimated Valuation at September 1, 2018 .....		10.63%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2018 Assessed Valuation .....		20.04%
: as a percentage of Estimated Valuation at September 1, 2018 .....		17.98%
Debt Service Fund Balance as of October 1, 2018 .....	\$	548,667(d)
General Fund Balance as of October 1, 2018 .....	\$	715,545
Anticipated 2018 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax .....	\$0.75	
Maintenance Tax .....	<u>0.70</u>	
Total .....		\$1.45(e)
Average Percentage of Tax Collections 2009 through 2016 Levies .....		99.73%
As of September 30, 2018.		
See "TAX DATA - Historical Values and Tax Collection History."		
Percentage Tax Collections 2017 Tax Levy		
As of September 30, 2018. ....		99.50%
Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2019-2048) .....	\$	840,992
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2048) .....	\$	864,238
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2019-2048) at 95% Tax Collections Based Upon 2018 Assessed Valuation .....		\$0.73(c)(e)
Based Upon Estimated Valuation at September 1, 2018 .....		\$0.65(c)(e)

Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum	
Annual Debt Service Requirement of the Bonds and the	
Outstanding Bonds (2048) at 95% Tax Collections	
Based Upon 2018 Assessed Valuation . . . . .	\$0.75(c)(e)
Based Upon Estimated Valuation at September 1, 2018 . . . . .	\$0.67(c)(e)
Number of Single Family Residences (including 27 residences under construction) . . . . .	743
as of September 1, 2018	

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- (a) As of January 1, 2018. All property in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$7,423,461 which total is included in the amount of \$122,629,093. The Appraisal District has proposed the valuation of such protested properties to be \$8,282,848. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$3,244,913, which total is also included in the amount of \$122,629,093. The District is unable to predict the amount of the District's final 2018 Assessed Valuation. Such final 2018 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2018. See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."
  - (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 1, 2018, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through August 31, 2018. The ultimate Assessed Valuation of any improvements added from January 1, 2018, through August 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2019.
  - (c) See "DISTRICT DEBT." In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."
  - (d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund. Such fund balance gives effect to the timely payment by the District of the entirety of its debt service requirements that were due for 2018. The District's initial payment on the Bonds is due on March 1, 2019, and consists of four months of interest thereon.
  - (e) The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation and a maintenance tax of \$0.70 per \$100 of Assessed Valuation for 2018. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's anticipated 2018 rate, is \$3.81751. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."

**NORTHEAST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX BONDS  
SERIES 2018**

**INTRODUCTION**

This Official Statement provides certain information with respect to the issuance by Northeast Harris County Municipal Utility District No. 1 (the “District”) of its \$3,500,000 Unlimited Tax Bonds, Series 2018 (the “Bonds”).

There follow in this Official Statement descriptions of the Bonds and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request and payment of the costs of duplication thereof.

**THE BONDS**

**General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the resolution (the “Bond Resolution”) of the Board of Directors of the District (the “Board”) authorizing the issuance of the Bonds. A copy of the Bond Resolution may be obtained from the District upon written request made to the District's Financial Advisor, Rathmann & Associates, L.P., 8584 Katy Freeway, Suite 250, Houston, Texas 77092.

The \$3,500,000 Northeast Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2018, are dated November 1, 2018. Interest accrues from November 1, 2018, at the rates shown on the cover hereof, and is payable on March 1, 2019 (four-month interest payment), and on each September and March 1 thereafter until the earlier of stated maturity or redemption. \$180,000 of the Bonds are issued as serial bonds maturing on September 1 in each of the years 2020 through 2023, both inclusive, in the respective principal amounts set forth on the cover page of this Official Statement. \$3,320,000 of the Bonds are issued as term bonds maturing on September 1 in each of the years 2025, 2027, 2029, 2031, 2033, 2035, 2037, 2040, 2044, 2046 and 2048, in the respective principal amounts set forth on the cover page of this Official Statement (collectively, the “Term Bonds”). The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. Principal of the Bonds will be payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas, or any successor paying agent/registrar (the “Paying Agent,” “Registrar” or “Paying Agent/Registrar”).

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 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 as described below under “Book-Entry-Only System.”

**Book-Entry-Only System**

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.*

*The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company (“DTC”), New York, NY, 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, 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment 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 Paying Agent. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

#### **Record Date**

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the 15th day of the month (whether or not a business day) preceding such interest payment date.

#### **Assignments, Transfers and Exchanges**

In the event the book-entry-only system is discontinued, the Bonds may be transferred, registered and assigned only on the registration books of the Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of delivery of the Bonds to the Initial Purchaser (the "Initial Delivery"), any Bond may be transferred or exchanged upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three business days after the receipt of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at

the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date. The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, on receipt of satisfactory evidence of such destruction, loss or theft and receipt by the District and the Registrar of security or indemnity to keep them harmless. The District will require payment of taxes, governmental charges and other expenses in connection with any such replacement.

**Redemption Provisions**

Optional Redemption

The Term Bonds that mature on and after September 1, 2025, shall be subject to redemption and payment prior to their scheduled maturities at the option of the District, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption. Notice of redemption is required to be mailed by the Registrar at least thirty (30) days prior to the redemption date by sending such notice by first class mail to each of the Registered Owners of the Bonds to be redeemed in whole or in part at the address shown on the bond register.

Mandatory Redemption

The Term Bonds are subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years and in the amounts set forth below, subject to reduction, at the option of the District, by the amount of any prior optional redemptions or cancellations as described below, at a redemption price of par plus accrued interest to the date of redemption:

**\$105,000 Term Bonds Maturing on September 1, 2025**

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
September 1, 2024	\$50,000
September 1, 2025 (maturity)	55,000

**\$115,000 Term Bonds Maturing on September 1, 2027**

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
September 1, 2026	\$55,000
September 1, 2027 (maturity)	60,000

**\$120,000 Term Bonds Maturing on September 1, 2029**

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
September 1, 2028	\$55,000
September 1, 2029 (maturity)	65,000

**\$130,000 Term Bonds Maturing on September 1, 2031**

<u>Mandatory Redemption Dates</u>	<u>Principal Amount</u>
September 1, 2030	\$65,000
September 1, 2031 (maturity)	65,000

**\$135,000 Term Bonds Maturing on September 1, 2033**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2032	\$70,000
September 1, 2033 (maturity)	65,000

**\$140,000 Term Bonds Maturing on September 1, 2035**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2034	\$70,000
September 1, 2035 (maturity)	70,000

**\$150,000 Term Bonds Maturing on September 1, 2037**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2036	\$75,000
September 1, 2037 (maturity)	75,000

**\$240,000 Term Bonds Maturing on September 1, 2040**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2038	\$75,000
September 1, 2039	80,000
September 1, 2040 (maturity)	85,000

**\$365,000 Term Bonds Maturing on September 1, 2044**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2041	\$85,000
September 1, 2042	90,000
September 1, 2043	95,000
September 1, 2044 (maturity)	95,000

**\$200,000 Term Bonds Maturing on September 1, 2046**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2045	\$100,000
September 1, 2046 (maturity)	100,000

**\$1,620,000 Term Bonds Maturing on September 1, 2048**  
**Mandatory Redemption Dates** **Principal Amount**

September 1, 2047	\$790,000
September 1, 2048 (maturity)	830,000



On or before 30 days prior to each Mandatory Redemption date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of Term Bonds of the same maturity, which, by the 45<sup>th</sup> day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of any redemption will be given by the Registrar at least thirty (30) days prior to the redemption date by sending such 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 bond register.

If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District in denominations of \$5,000 or any integral multiple thereof within any one maturity and if fewer than all of the Bonds within a certain maturity are to be redeemed, the Paying Agent/Registrar shall designate the Bonds within such maturity to be redeemed by method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). In the event the book-entry-only system is discontinued, the registered owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

### **Replacement of Registrar**

Provision is made in the Bond Resolution for replacement of the Registrar. If the Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Registrar. In order to act as Registrar for the Bonds, any paying agent/registrar selected by the District shall be a national or state banking institution, 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.

### **Authority for Issuance**

At an election held within the District on May 12, 2007, the District authorized a total of \$168,000,000 bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and for refunding bonds issued pursuant to such authorization. The Bonds constitute the seventh issuance of bonds from such authorization. After sale of the Bonds, a total of \$152,875,000 principal amount of unlimited tax bonds for facilities and for refunding purposes will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Resolution; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the Texas Commission on Environmental Quality (the "TCEQ").

### **Payment Record**

The Bonds are the seventh series of bonds issued by the District for the purpose of acquiring and constructing a waterworks, sanitary sewer and storm drainage system (the "System") to serve the District. The District has previously issued Unlimited Tax Bonds, Series 2010 (the "Series 2010 Bonds"), Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"), Unlimited Tax Bonds, Series 2014 (the "Series 2014 Bonds"), Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"), Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds"), Unlimited Tax Bonds, Series 2017 (the "Series 2017 Bonds") and Unlimited Tax Refunding Bonds, Series 2017 (the "Series 2017 Refunding Bonds"), (collectively, the "Prior Bonds"). The District has timely made all payments of interest on and principal of the Prior Bonds when due. Before the issuance of the Bonds, the aggregate principal amount of the Prior Bonds that had not been previously retired by the District was \$11,030,000 (collectively, the "Outstanding Bonds"), and after issuance of the Bonds, the total of the District's direct bonded indebtedness owing, consisting of the Outstanding Bonds and the Bonds, will be \$14,530,000.

## **Source of Payment**

The Outstanding Bonds and the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collection, and Registrar fees. Such proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Outstanding Bonds and the Bonds, and on additional bonds payable from taxes which may hereafter be issued, and Paying Agent/Registrar fees.

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

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$168,000,000 unlimited tax bonds for construction of water distribution, wastewater collection and storm drainage facilities and for refunding bonds issued pursuant to such authorization and could authorize additional amounts. Following the issuance of the Bonds, \$152,875,000 unlimited tax bonds from such authorization will remain authorized but unissued. The District's voters also have authorized \$14,000,000 unlimited tax bonds for constructing recreational facilities and refunding bonds issued pursuant to such authorization. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ.) In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "Use and Distribution of Bond Proceeds" below and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, IDS Engineering Group (the "Engineer"), the \$152,875,000 authorized but unissued bonds will be adequate to finance the extension of water, wastewater and storm drainage facilities and services to the District to serve all of the remaining undeveloped portions of the District. See "DEVELOPMENT OF THE DISTRICT," "FUTURE DEVELOPMENT," and "THE SYSTEM."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Voters of the District have approved the issuance of \$14,000,000 bonds to finance recreational facilities. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park plan and bonds by the TCEQ and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. 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 the bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered a fire plan or calling an election at this time for such purpose.

## **No Arbitrage**

The District certifies that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal

Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

### **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District.

If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

### **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.

### **Registered Owners' Remedies**

Pursuant to Texas law, the Bond Resolution provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Resolution into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. In addition any legal action taken to seek any such remedies may be limited by the doctrine of sovereign immunity. 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. Even if the Registered Owners could obtain a judgment against the District, such judgment cannot be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar

laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See “Bankruptcy Limitation to Registered Owners' Rights” below.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by 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. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

The District may not be placed into bankruptcy involuntarily.

### **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 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, or with a commercial bank or trust company designated in the proceedings authorizing such discharge, 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 non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) non-callable 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) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the 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. The foregoing obligations may be in book entry form and shall 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. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Resolution.

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. Because the Bond Resolution does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

## **Use and Distribution of Bond Proceeds**

Proceeds of the sale of the Bonds will be used by the District to (i) make payment to Woodmere Development Co., Ltd., the developer of Edgewood Village and Sheldon Ridge located within the District (defined below under the caption "Developer") for (a) the remaining costs of water, wastewater, and drainage facilities to serve Sheldon Ridge, Section 1; (b) Sheldon Ridge Phase 1 Detention Pond; (c) construction costs of clearing and grubbing, and rough grading, to serve Sheldon Ridge, Sections 2 through 4 and Sheldon Ridge Phase 2 Detention Pond; and (d) water, wastewater, and drainage facilities to serve Edgewood Village, Section 1B; (ii) pay Storm Water Pollution Prevention Plans costs; (iii) pay engineering fees associated with the foregoing projects; (iv) pay interest to the Developer on advances that it has made on behalf of the District; (v) certain operating costs advanced by the Developer; and (vi) pay for administrative and issuance costs, legal fees, fiscal agent's fees, a fee to the TCEQ, a fee to the Attorney General of Texas, engineering fees, costs associated with the operation of the District, and certain financing costs related to the issuance of the BAN (defined below) and the Bonds. The District will also retire its Bond Anticipation Note, Series 2017 (the "BAN"), including payment of principal of and interest thereon, with a portion of the proceeds of the sale of the Bonds. The District utilized the proceeds of the BAN to interim finance certain of the aforementioned facilities that it is financing with the proceeds of the sale of the Bonds.

**Construction Costs****District Share**

## A. Developer Contribution Items (a)

1. Sheldon Ridge, Section 1 Water and Drainage	\$ 188,914
2. Clearing and Grubbing Sheldon Ridge, Sections 2, 3 and 4	129,949
3. Rough Grading of Sheldon Ridge, Sections 2, 3, 4 and Detention Pond	584,591
4. Sheldon Ridge Detention Pond	455,603
5. Edgewood Village, Section 1B Water, Wastewater and Drainage	310,717
6. Storm Water Pollution Prevention Plan	152,196
7. Engineering	413,080
8. Geotechnical Items	<u>100,092</u>
Total Developer Contribution Items	\$2,335,142

## B. District Items - None

Total Construction Costs	\$2,335,142
Less Surplus Funds	<u>(22,330)</u>
TOTAL CONSTRUCTION COSTS	\$2,312,812

**Non-Construction Costs**

1. Legal Fees	\$ 102,500
2. Fiscal Agent Fees	70,000
3. Interest	
A. Developer Interest (b)	577,607
B. Bond Anticipation Note Interest	52,740
4. Bond Discount	105,000
5. Bond Issuance Expenses	56,174
6. Bond Application Report Costs	45,000
7. Operating Expenses	106,295
8. Bond Anticipation Note Expenses	59,622
9. Attorney General Fee	3,500
10. TCEQ Bond Issuance Fee	<u>8,750</u>
TOTAL NON-CONSTRUCTION COSTS	<u>\$1,187,188</u>
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b><u>\$3,500,000</u></b>

(a) The rules of the TCEQ require in certain instances that developers within a district subject to the jurisdiction of the TCEQ contribute to the construction program of such district an amount of money equal to thirty percent (30%) of the construction costs of certain water, sewer and drainage facilities in that district. The District

requested an exemption from such developer participation requirement on the basis of one of the criteria under TCEQ rules for such exemption. The TCEQ granted the request for such exemption in its Order authorizing the District to issue the Bonds.

- (b) Represents interest owed the Developer on advances of construction costs and engineering fees and operating expenses made on the District's behalf by the Developer. The actual amount of interest owed will be calculated at the lesser of (i) the net effective interest rate borne by the Bonds or (ii) the interest rate at which the Developer has borrowed funds.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to reimburse the Developer for the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds, and the Outstanding Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District, are secured by the proceeds an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry and the light industrial and commercial industries, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source of Payment" and - "Registered Owners' Remedies."

### **Factors Affecting Taxable Values and Tax Payments**

**Economic Factors:** The rate of development of the District is related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, credit availability, energy availability and cost, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the market values of existing homes. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the captions "DEVELOPMENT AND HOME CONSTRUCTION," and "DEVELOPER," as of September 1, 2018, (i) the development of 851 single-family residential lots is complete within the District, (ii) the District contained 743 single-family homes (including 27 homes under construction), (iii) 51 lots are currently under development in the District, and (iv) as is described in this Official Statement under the caption "BUILDERS," the Builders are currently constructing homes within the District, the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

**National Economy:** There has been a downturn in new housing construction in the United States, resulting in a decline in national housing market values. Although, as is described in this Official Statement under the captions “DEVELOPMENT AND HOME CONSTRUCTION,” and “DEVELOPER,” as of September 1, 2018, (i) the development of 851 single-family residential lots is complete within the District, (ii) the District contained 743 single-family homes (including 27 homes under construction), (iii) 51 lots are currently under development in the District, and (iv) as is described in this Official Statement under the caption “BUILDERS,” the Builders are currently constructing homes within the District, the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing market and a continued downturn in the national housing and financial markets may have on the Houston market generally and the District specifically, or the maintenance of assessed values in the District.

**Credit Markets and Liquidity in the Financial Markets:** Interest rates and the availability of mortgage and development funding have a direct impact on homebuilding and commercial development activity, particularly short-term interest rates at which homebuilders are able to finance the construction of new homes for sale and at which commercial developers are able to finance new commercial buildings. Interest rate levels may affect the ability of homebuilders to initiate the construction of new homes for sale and of commercial developers to initiate the construction of new commercial buildings. 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 home and commercial construction within the District. In addition, since the District is located approximately 15 miles east/northeast of the central business district of the City of Houston, the 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 downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect homebuilding plans or the construction of new commercial buildings in the District and restrain the growth of the District’s property tax base.

**Developer/Builder Obligation to the District:** The ability of Woodmere Development Co., Ltd., BGM Land Investments, Ltd., Long Lake, Ltd. (defined in this Official Statement under the caption “DEVELOPER”), which own property within the District constituting 1.02% of the District’s 2018 tax roll, or Woodmere Development Co., or any other principal taxpayer within the District to make full and timely payments of taxes levied against their property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. See “TAX DATA - Principal 2018 Taxpayers.” There is no commitment by or legal requirement of Woodmere or any other developer to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of the Builders (see “BUILDERS”) or any other home building company to proceed at any particular pace with the construction of homes in the District, and there is no restriction on any land owner’s right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of home construction activity in the District. See “FUTURE DEVELOPMENT.”

### **Maximum Impact on District Tax Rates**

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. The District’s 2018 Assessed Valuation is \$122,629,093. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds will be \$864,238 (2048) and the Average Annual Debt Service Requirements will be \$840,992 (2019 through 2048, inclusive). Assuming no increase to nor decrease from the 2018 Assessed Valuation, no use of funds on hand and the issuance of no additional bonds by the District, tax rates of \$0.75 and \$0.73 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. The Estimated Valuation at September 1, 2018, of property located within the District, supplied by the Appraisal District, is \$136,685,604. Assuming no increase to nor decrease from the Estimated Valuation at September 1, 2018, no use of funds on hand and the issuance of additional bonds by the District, tax rates of \$0.67 and \$0.65 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.



The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation, plus a maintenance tax of \$0.70 per \$100 of Assessed Valuation for 2018. As the above calculations indicate, the anticipated 2018 debt service tax rate will be sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds given taxable values in the District at the level of the 2018 Assessed Valuation or the Estimated Valuation at September 1, 2018, assuming a tax collection rate of 95%, no use of other funds on hand, and the issuance of no additional bonds by the District. In addition, the District had collected an average of 99.73% of its tax levies for the period 2009 through 2016 as of September 30, 2018, and its 2017 levy was 99.50% collected as of such date. Moreover, the District's Debt Service Fund balance was \$548,667 as of October 1, 2018. Although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see "APPENDIX B - FINANCIAL REPORT"). The District anticipates that the level of valuation reflected by the Estimated Valuation at September 1, 2018, and future increases in taxable values which are expected to occur as a consequence of the construction of homes on the lots developed by the Developer will enable it to meet the debt service requirements on the Bonds and the Outstanding Bonds without increasing the debt service tax rate above the debt service tax rate which the District anticipates levying for 2018 - \$0.75 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAXING PROCEDURES." Increases in the District's tax rate to higher levels than the total \$1.45 per \$100 of Assessed Valuation rate which the District anticipates levying for 2018 may have an adverse impact upon future development of the District, the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's anticipated 2018 rate, is \$3.81751 per \$100 of Assessed Valuation. Such aggregate rates are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District.

### **Tax Collection Limitations**

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 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, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem the property within two (2) years of foreclosure. See "TAXING PROCEDURES."

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not 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. Based on recent Texas court decisions, it is unclear whether §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Registered Owners' Remedies."

The District may not be placed into bankruptcy involuntarily.

### **Future Debt**

The District reserved in the Bond Resolution the right to issue the remaining \$152,875,000 unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities, and for refunding such bonds, the \$14,000,000 unlimited tax bonds authorized but unissued bonds for recreational facilities and for refunding such bonds, and such additional bonds as may hereafter be approved by the voters of the District. All of the remaining bonds described above for waterworks, wastewater and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such \$152,875,000 bonds for waterworks, wastewater and drainage facilities and of such \$14,000,000 bonds for recreational facilities is also subject to TCEQ authorization. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019.

The District's Engineer currently estimates that the aforementioned \$152,875,000 authorized bonds which remain unissued will be adequate to finance the construction of all waterworks, wastewater, and drainage facilities to provide service to all of the currently undeveloped portions of the District. See "Maximum Impact on District Tax Rates" above, "THE BONDS," "DEVELOPMENT AND HOME CONSTRUCTION," "FUTURE DEVELOPMENT" and "THE SYSTEM." If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "THE BONDS - Issuance of Additional Debt."

### **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, 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.

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

### **Competitive Nature of Houston Residential Housing Market**

The housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that the building programs which are planned by Long Lake, which is constructing homes within the District under the trade names Lake Ridge Builders and Pride Builders (see "BUILDERS") or any future home builder(s) will be continued or completed. The respective competitive positions of Woodmere (see "DEVELOPER"), and any other developer(s) which might attempt future development projects in the District in the sale of developed lots or Lake Ridge Builders or Pride Builders or any other home builder(s) which might attempt future home building projects in the District in the construction and sale of single-family residential units are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

### **Continuing Compliance with Certain Covenants**

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

### **Marketability**

The District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. There is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

### **Environmental Regulations**

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in 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 (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. 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-has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 ("the 1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 ("the 2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 ("the 2015 Ozone Standard"). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area "anti-backsliding" requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ's "redesignation substitute" for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a "moderate" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a state implementation plan ("SIP") for the HGB area 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. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB area's economic growth and development.

### *Water Supply & Discharge Issues*

Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

The District's stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the "Current Permit") issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District's inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States."

Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. If the CWR is not rescinded and is ultimately upheld and goes into effect, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of the expanded scope of jurisdictional "waters of the United States" under the CWR.

### **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

### **Tropical Weather Events; Hurricane Harvey**

The Houston area, including the District, is subject to occasional severe tropical weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500 year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the District's Operator and Engineer, the District's System did not sustain any material damage from Hurricane Harvey and there was no interruption of water or sewer service. Neither the District's Operator nor Engineer are aware of any homes within the District that experienced structural flooding or other significant damage as a result of Hurricane Harvey. Hurricane Harvey could have a material impact on the Houston region's economy. The District cannot predict what impact, if any, Hurricane Harvey will have on the assessed value of homes within the District.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

#### *Specific Flood Type Risks*

Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

## THE DISTRICT

### General

The District is a municipal utility district created by an order of the Texas Water Rights Commission (predecessor to the TCEQ) dated July 18, 1978, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies totally within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, 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 may also provide solid waste disposal and collection services. 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 TCEQ and the voters of the District. See “THE BONDS - Authority for Issuance” and “Issuance of Additional Debt.”

The District is required to observe certain requirements of the City of Houston, which limit the purposes for which the District may sell bonds; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston, and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

### Description

The District contains approximately 902.78 acres of land. The District is located entirely within Harris County, Texas, approximately 15 miles east/northeast of the central business district of the City of Houston, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). The District is comprised of four non-contiguous tracts two of which are being developed and are expected to be utilized primarily for single-family residential purposes, one of which is expected to be developed for light industrial purposes and one of which is expected to be utilized for commercial development: the Edgewood Village Subdivision (“Edgewood”) and Sheldon Ridge Subdivision (“Sheldon Ridge”) are the two residential subdivisions, Riverwood (“Riverwood”) is the light industrial tract and the Terra Grezza Tract (“Terra Grezza Tract”) is the tract that is expected to be utilized for commercial development. See “DEVELOPMENT AND HOME CONSTRUCTION.” The two non-contiguous residential subdivisions are served by separate water supply, wastewater treatment and stormwater drainage systems. The Terra Grezza Tract will be served by the Edgewood system. The Riverwood tract may be served by a separate water supply, wastewater treatment and storm drainage system or by private utilities on a separate water and sewer system. See “THE SYSTEM.” The District is accessed from the Houston central business district by traveling east on Interstate 10 to Beltway 8 (Sam Houston Tollway), then north approximately 3 miles along Beltway 8 to Old Beaumont Highway 90 (Old US Highway 90) and then east along Old Beaumont Highway. Edgewood and Riverwood have frontage on Old Beaumont Highway, and Sheldon Ridge is located approximately 0.6 miles north of Old Beaumont Highway along Sheldon Road. Additionally, Edgewood has frontage on new State Highway 90. Sheldon Ridge can be accessed off new State Highway 90 by exiting at Sheldon Road and traveling north. The Terra Grezza Tract is located at the northwest corner of US Highway 90 and Beltway 8. The District lies wholly within the Sheldon Independent School District. See “APPENDIX A - LOCATION MAP.”

### Management of the District

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in even numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. None of the Directors currently resides within the District.

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
James Moffatt	President	2022
Keith Jaehne	Vice President	2022
Tonya Nunez	Assistant Vice President	2020
Ellen Crocker	Secretary	2022
Rebecca Velasco	Assistant Secretary	2020

The District does not have a general manager or any other employee, but has contracted for services, as follows.

Operator - Municipal Operations & Consulting, Inc. is the operator of the District's System. According to Municipal Operations & Consulting, Inc., it acts as operator for 83 utility districts.

Tax Assessor/Collector - The District has engaged Bob Leared of Bob Leared Interests, Houston, Texas, as the District's Tax Assessor/Collector. According to Mr. Leared, he presently serves approximately 150 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

Consulting Engineers - The District has employed the firm of IDS Engineering Group, Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design and construction of the System.

Bookkeeper - The District has engaged McLennan & Associates, L.P. as the District's Bookkeeper. According to McLennan & Associates, L.P., it currently serves approximately 100 districts as bookkeeper.

Auditor - As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's auditor for the 2018 fiscal year is McGrath & Co., PLLC, Certified Public Accountants, Houston, Texas. A copy of the District's audit for the fiscal year ended May 31, 2018, is included as "APPENDIX B" to this Official Statement.

Bond Counsel and General Counsel - Allen Boone Humphries Robinson LLP, Houston, Texas ("Bond Counsel") serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Allen Boone Humphries Robinson LLP serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel - McCall, Parkhurst & Horton L.L.P., Dallas, Texas, serves as Disclosure Counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P. as financial advisor (the "Financial Advisor") to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"). Rathmann & Associates, L.P.'s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.'s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.'s registration filings, may be accessed through [http://www.sec.gov/edgar/searchedgar/company\\_search.html](http://www.sec.gov/edgar/searchedgar/company_search.html).



## DEVELOPMENT AND HOME CONSTRUCTION

As of September 1, 2018, the District contained 743 homes, including 27 homes under construction, 108 vacant fully developed single-family residential lots that are available for home construction and 51 additional single-family residential lots that are under development. See “BUILDERS.” According to the District’s Engineer, underground water distribution, wastewater collection, and storm drainage/detention facilities and street paving have been completed by Woodmere Development Co., Ltd. (“Woodmere” or the “Developer”), the developer of Edgewood Village and Sheldon Ridge (defined below under the caption “DEVELOPER”) to serve the 851 fully developed single-family residential lots located in the subdivisions that have been platted as Edgewood Village, Sections 1A, 1B, and 2 through 5, and Sheldon Ridge, Sections 1 through 5 and 8 through 10 (a total of approximately 159.4 acres) in the District as is delineated in the chart that appears below. In addition, Edgewood Village, Section 6 (51 lots on approximately 8.8 acres) is currently under development within the District, with completion anticipated by approximately November 2018. Long Lake, Ltd. (“Long Lake”), doing business as Lake Ridge Builders and Pride Builders, has constructed and is constructing homes on lots purchased from Woodmere in Edgewood Village and Sheldon Ridge, respectively, as is described below under the caption “BUILDERS” and as is enumerated in the chart that appears below. BGM Land Investments, Ltd. (“BGM”), owns approximately 212.3 acres of currently undeveloped land located within the District, approximately 193.6 acres of which are expected to be developed into approximately 1,308 future single-family residential lots, and approximately 18.7 acres of which are designated for future commercial development. It is currently expected that Woodmere will purchase land from BGM on an as-need basis with the intention of developing such land into single-family residential lots as development of the District progresses. Tracts of approximately 228 acres and 82 acres of currently undeveloped land located within the District that are currently expected to be developed for light industrial purposes are owned by McAlister Opportunity Fund and Pescador Partners, Ltd., respectively. Approximately 22.5 acres of currently undeveloped land located within the District that are expected to be utilized for future commercial development are owned by Terra Grezza Investments. However, since no party has any obligation to the District to undertake or complete the development of any of such currently undeveloped land according to any particular timetable or at all, the District cannot represent that the development thereof will be undertaken or completed nor can the District represent that Woodmere will purchase any additional land from BGM. Approximately 189.8 acres located within the District are contained within storm water drainage/detention facilities, are designated as park/recreational or open spaces, are contained within District plant sites, or are otherwise not available for development. See “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments,” DEVELOPER,” “FUTURE DEVELOPMENT” and “TAX DATA - Principal 2018 Taxpayers.”

In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

As of September 1, 2018, the status of lot development and home construction within the District was as follows:

<u>Subdivision</u>	<u>Lots</u>				<u>Homes</u>					<u>Totals</u>
	<u>Developed</u>	<u>Acres</u>	<u>Under</u>		<u>Under</u>		<u>Completed</u>			
			<u>Development</u>	<u>Acres</u>	<u>Sold*</u>	<u>Unsold</u>	<u>Sold*</u>	<u>Unsold</u>	<u>Models</u>	
Edgewood Village										
Section 1A	78	15.4			0	0	61	0	1	62
Section 1B	69	12.2			0	0	69	0	0	69
Section 2	98	17.7			0	0	98	0	0	98
Section 3	55	9.0			0	0	55	0	0	55
Section 4	50	8.0			0	0	50	0	0	50
Section 5	45	7.4			12	5	15	0	0	32
Section 6			51	8.8	0	0	0	0	0	0
Sheldon Ridge										
Section 1	91	18.2			0	0	82	0	1	83
Section 2	85	15.7			0	0	85	0	0	85
Section 3	49	7.9			0	0	49	0	0	49
Section 4	41	6.7			0	0	41	0	0	41
Section 5	44	6.9			0	0	44	0	0	44
Section 8	47	13.4			0	0	35	0	1	36
Section 9	49	9.8			5	4	29	0	0	38
Section 10	<u>50</u>	<u>11.1</u>			<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<b>TOTALS</b>	<b>851</b>	<b>159.4</b>	<b>51</b>	<b>8.8</b>	<b>17</b>	<b>10</b>	<b>713</b>	<b>0</b>	<b>3</b>	<b>743</b>

\* Includes homes sold and contracted for sale. Homes under contract for sale, in some instances, are subject to conditions of appraisal, loan application, approval and inspection. See "BUILDERS."

## DEVELOPER

### General

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be emplaced in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent (30%) of the cost of emplacing certain of the water, wastewater and drainage facilities in the utility district pursuant to the rules of the TCEQ, although the District requested an exemption from such developer participation requirement with respect to the facilities financed with the proceeds of the Bonds on the basis of qualification for such exemption under the rules of the TCEQ, and the TCEQ granted such exemption in its Order authorizing the sale of the Bonds. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on the developer's right to sell any or all of the land which the developer owns within a district. See "FUTURE DEVELOPMENT" below.

## **Description of the Developer**

The developer of land within the District is Woodmere Development Co., Ltd., a Texas limited partnership (“Woodmere” or the “Developer”), the general partner of which is Woodmere GP, L.L.C., a Texas limited liability company. Woodmere has acquired approximately 159.4 acres of land located in the District from a related party, BGM Land Investments, Ltd. (“BGM”), a Texas limited partnership, the general partner of which is G.P. Landvest L.L.C. Woodmere has developed such 159.4 acres into 851 fully developed single-family residential lots that have been platted as Edgewood Village, Sections 1A, 1B, and 2 through 5, and Sheldon Ridge, Sections 1 through 5 and 8 through 10. In addition, Woodmere has acquired approximately 8.8 additional acres of land from BGM that Woodmere is currently developing as Edgewood Village, Section 6 (51 single-family residential lots) within the District, with completion anticipated by November 2018. BGM owns approximately 212.3 acres of undeveloped land in the District, approximately 193.6 acres of which are expected to be developed into approximately 1,308 future single-family residential lots, and approximately 18.7 acres of which are designated for future commercial development. It is currently expected that Woodmere will purchase land from BGM on an as-needed basis with the intention of developing such land into single-family residential lots as development of the District progresses. After developing the land, Woodmere sells the developed lots on an as-needed basis to a related party, Long Lake, Ltd. (“Long Lake”), a Texas limited partnership that is doing business in the District as Lake Ridge Builders and Pride Builders, which has constructed and is constructing homes within the District as is described in the chart that appears in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION” and under the caption “BUILDERS.” Woodmere, BGM and Long Lake are all under common management and common ownership and, through one or more of such entities, have been in the land development business since 1997.

## **BUILDERS**

According to Long Lake, it is currently constructing homes in Edgewood Village under the trade name Lake Ridge Builders which range in size from approximately 1,514 to 3,164 square feet of living area and in sales price from approximately \$190,000 to \$240,000.

According to Long Lake, it is currently constructing homes in Sheldon Ridge under the trade name Pride Builders which range in size from approximately 1,489 to 3,086 square feet of living area and in sales price from approximately \$180,000 to \$230,000.

Although Long Lake has reported the descriptions of the homes that it is currently constructing in the District under the aforementioned trade names, Lake Ridge Builders and Pride Builders (together, the “Builders”), to be accurate as of the date of this Official Statement, Long Lake may change the types, sizes and sales prices of the homes which it chooses to construct within the District entirely within its discretion, or may suspend home construction activity entirely.

## **FUTURE DEVELOPMENT**

As is described above under the caption “DEVELOPMENT AND HOME CONSTRUCTION,” approximately 159.4 acres of the total of approximately 902.8 acres of land located within the District have been developed into 851 single-family residential lots, the development of which is complete. In addition, Edgewood Village, Section 6 (51 single-family residential lots on approximately 8.8 acres) are currently under development within the District, with completion anticipated by November 2018. BGM owns approximately 212.3 additional acres of land located within the District, approximately 193.6 acres of which are expected to be developed into approximately 1,308 future single-family residential lots, and approximately 18.7 acres of which are designated for future commercial development. It is currently expected that Woodmere will purchase land from BGM on an as-needed basis with the intention of developing such land into single-family residential lots as development of the District progresses. Tracts of approximately 228 acres and 82 acres of currently undeveloped land located within the District that are currently expected to be developed for light industrial purposes are owned by McAlister Opportunity Fund and Pescador Partners, Ltd., respectively. Approximately 22.5 acres of currently undeveloped land located within the District that are expected to be utilized for future commercial development are owned by Terra Grezza Investments. Since no party has any obligation to the District to undertake or complete the development of any of such currently undeveloped land according to any particular timetable or at all, the

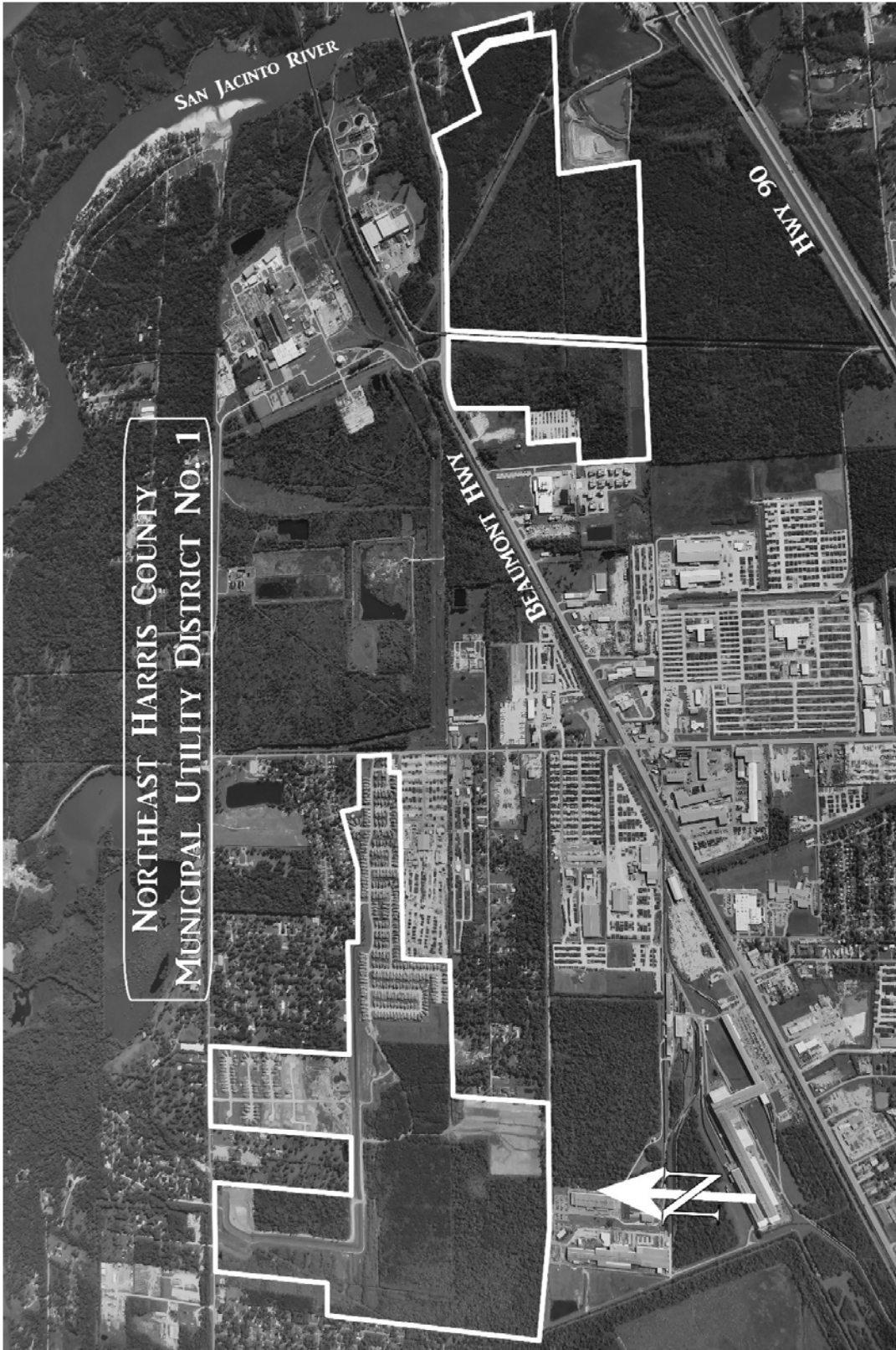
District cannot represent that the development of any of the currently undeveloped land located within the District will be undertaken or completed nor can the District represent that Woodmere will purchase any additional land from BGM. Approximately 189.8 acres located within the District are contained within storm water drainage/detention facilities, are designated as park/recreational or open spaces, are contained within District plant sites, or are otherwise not available for development. See “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments,” “DEVELOPER,” and “TAX DATA - Principal 2018 Taxpayers.”

If any undeveloped portion of the District is eventually developed, additions to the water, wastewater and drainage systems required to provide service to such undeveloped acreage may be financed by future issues of the District’s bonds. In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.” Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, IDS Engineering Group (the “Engineer”), the \$152,875,000 authorized but unissued bonds will be adequate to finance the extension of water, wastewater and storm drainage facilities and services to the District to serve all of the remaining undeveloped portions of the District. See “DEVELOPMENT OF THE DISTRICT” and “THE SYSTEM.”

**AERIAL PHOTOGRAPH OF A PORTION OF THE DISTRICT  
(taken October 2018)**



**AERIAL PHOTOGRAPH OF A PORTION OF THE DISTRICT**  
**(taken October 2018)**



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT**  
**(taken October 2018)**





PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(taken October 2018)





## DISTRICT DEBT

### Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements of the Outstanding Bonds and the principal and interest requirements of the Bonds.

<u>Year</u>	<u>Outstanding Bonds</u>	<u>The Bonds</u>		<u>Total Debt Service Requirements</u>
		<u>Principal (Due 9-1)</u>	<u>Interest</u>	
2019	\$ 639,599		\$ 131,203	\$ 770,802
2020	642,044	\$ 40,000	157,444	839,488
2021	644,619	40,000	154,844	839,463
2022	641,444	50,000	152,244	843,688
2023	643,194	50,000	148,994	842,188
2024	639,169	50,000*	145,744	834,913
2025	639,894	55,000*	142,494	837,388
2026	645,371	55,000*	138,919	839,290
2027	645,266	60,000*	135,481	840,747
2028	644,635	55,000*	131,731	831,366
2029	643,655	65,000*	128,431	837,086
2030	647,118	65,000*	124,531	836,649
2031	644,874	65,000*	120,631	830,505
2032	647,030	70,000*	116,731	833,761
2033	648,504	65,000*	113,931	827,435
2034	649,453	70,000*	111,331	830,784
2035	649,760	70,000*	108,531	828,291
2036	654,245	75,000*	105,731	834,976
2037	652,808	75,000*	102,731	830,539
2038	655,665	75,000*	99,731	830,396
2039	677,760	80,000*	96,731	854,491
2040	677,434	85,000*	93,531	855,965
2041	681,068	85,000*	90,131	856,199
2042	683,640	90,000*	86,625	860,265
2043	680,050	95,000*	82,913	857,963
2044	687,094	95,000*	78,994	861,088
2045	687,656	100,000*	75,075	862,731
2046	689,281	100,000*	70,950	860,231
2047		790,000*	66,825	856,825
2048		830,000*	34,238	864,238
	<u>\$18,382,330</u>	<u>\$3,500,000</u>	<u>\$3,347,421</u>	<u>\$25,229,751</u>

Average Annual Requirements (2019-2048) .....	\$ 840,992
Maximum Annual Requirement (2048) .....	\$ 864,238

\* Represents mandatory sinking fund payments on Term Bonds.

**Bonded Indebtedness**

2018 Assessed Valuation . . . . .		\$122,629,093(a)
(As of January 1, 2018)		
See "TAX DATA" and "TAXING PROCEDURES"		
Estimated Valuation at September 1, 2018 . . . . .		\$136,685,604(b)
(As of September 1, 2018)		
See "TAX DATA" and "TAXING PROCEDURES"		
Direct Debt:     Outstanding Bonds . . . . .	\$ 11,030,000	
The Bonds . . . . .	<u>3,500,000</u>	
Total . . . . .	\$ 14,530,000(c)	
Estimated Overlapping Debt . . . . .		<u>\$ 10,048,970(c)</u>
Direct and Estimated Overlapping Debt . . . . .		<u>\$ 24,578,970</u>
Direct Debt Ratios		
: as a percentage of 2018 Assessed Valuation . . . . .		11.85%
: as a percentage of Estimated Valuation at September 1, 2018 . . . . .		10.63%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2018 Assessed Valuation . . . . .		20.04%
: as a percentage of Estimated Valuation at September 1, 2018 . . . . .		17.98%
Debt Service Fund Balance as of October 1, 2018 . . . . .	\$	548,667(d)
General Fund Balance as of October 1, 2018 . . . . .	\$	715,545
Anticipated 2018 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax . . . . .	\$0.75	
Maintenance Tax . . . . .	<u>0.70</u>	
Total . . . . .		\$1.45(e)

- (a) As of January 1, 2018. All property in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$7,423,461 which total is included in the amount of \$122,629,093. The Appraisal District has proposed the valuation of such protested properties to be \$8,282,848. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$3,244,913, which total is also included in the amount of \$122,629,093. The District is unable to predict the amount of the District's final 2018 Assessed Valuation. Such final 2018 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2018. See "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 1, 2018, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2018, through August 31, 2018. The ultimate

Assessed Valuation of any improvements added from January 1, 2018, through August 31, 2018, which will be placed on the District's 2019 tax roll, may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2019.

- (c) In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."
- (d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund. Such fund balance gives effect to the timely payment by the District of the entirety of its debt service requirements that were due for 2018. The District's initial payment on the Bonds is due on March 1, 2019, and consists of four months of interest thereon.
- (e) The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation and a maintenance tax of \$0.70 per \$100 of Assessed Valuation for 2018. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2017 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's anticipated 2018 rate, is \$3.81751. Such aggregate levies are higher than the aggregate tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of many municipal utility districts in the Houston metropolitan area which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."

**Estimated Direct and Overlapping Debt Statement**

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in “Texas Municipal Reports,” published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

<u>Taxing Jurisdiction</u>	<u>Debt as of September 1, 2018</u>	<u>Estimated Overlapping Percent</u>	<u>Amount</u>
Harris County *	\$2,200,173,021	0.02727%	\$ 600,072
Harris County Flood Control District	83,075,000	0.02727	22,658
Harris County Department of Education	6,555,000	0.02727	1,788
Harris County Hospital District	59,490,000	0.02727	16,225
Port of Houston Authority	613,699,397	0.02727	167,379
San Jacinto Community College District	381,881,805	0.22369	854,245
Sheldon Independent School District	368,979,996	2.27292	<u>8,386,603</u>
 Total Estimated Overlapping Debt			 \$10,048,970
 The District (the Bonds and the Outstanding Bonds)			 <u>14,530,000</u>
 Total Direct & Estimated Overlapping Debt			 \$24,578,970

\* The Harris County Toll Road Authority bonds are considered to be self-supporting, and are not included in this schedule.

**Debt Ratios**

	% of 2018 Assessed <u>Valuation</u>	% of Estimated Valuation <u>at September 1, 2018</u>
Direct Debt . . . . .	11.85%	10.63%
Direct and Estimated Overlapping Debt . . . . .	20.04%	17.98%

## TAX DATA

### Debt Service Tax

All taxable property located within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, sufficient to pay principal of and interest on the Bonds, the Outstanding Bonds and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Resolution to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation for 2018.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. On May 12, 2007, the District voters authorized the levy of such a maintenance tax in an amount not to exceed \$1.50 per \$100 of Assessed Valuation. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds and any parity bonds which may be issued in the future. The District anticipates levying a maintenance tax of \$0.70 per \$100 of Assessed Valuation for 2018.

### Historical Values and Tax Collection History

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate(a)</u>	<u>Adjusted Levy</u>	<u>Cumulative % Collections</u>	
				<u>Current &amp; Prior Years(b)</u>	<u>Year Ending 9/30</u>
2009	\$19,367,649	\$1.48	\$286,641	99.39%	2010
2010	27,645,312	1.48	409,150	99.62	2011
2011	34,437,248	1.48	509,671	99.74	2012
2012	39,370,467	1.48	582,683	99.78	2013
2013	47,302,713	1.48	700,080	99.81	2014
2014	56,050,997	1.48	829,555	99.83	2015
2015	69,584,953	1.48	1,029,857	99.86	2016
2016	88,592,524	1.48	1,311,169	99.84	2017
2017	110,363,157	1.45	1,600,266	99.50(c)	2018
2018	122,629,093(d)	1.45(e)	1,778,122	(e)	2019

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through September 30, 2018.

(c) As of September 30, 2018.

(d) Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$7,423,461 which total is included in the amount of \$122,629,093. The Appraisal District has proposed the valuation of such protested properties to be \$8,282,848. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$3,244,913, which total is also included in the amount of \$122,629,093. The District is unable to predict the amount of the District's final 2018 Assessed Valuation. Such final 2018 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2018.

(e) The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation and a maintenance tax of \$0.70 per \$100 of Assessed Valuation in November 2018.

**Tax Rate Distribution**

	<u>2018*</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$0.75	\$0.65	\$0.65	\$0.70	\$0.68
Maintenance	<u>0.70</u>	<u>0.80</u>	<u>0.83</u>	<u>0.78</u>	<u>0.80</u>
Total	\$1.45	\$1.45	\$1.48	\$1.48	\$1.48

\* Anticipated tax rate.

**Analysis of Tax Base**

The following table illustrates the composition of property located within the District during the past five years.

<u>Type of Property</u>	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	<u>Assessed Value</u>	<u>%</u>	<u>Assessed Value</u>	<u>%</u>	<u>Assessed Value</u>	<u>%</u>
Land	\$18,402,566	15.01%	\$22,970,867	20.81%	\$21,457,942	24.22%
Improvements	93,320,018	76.10	89,642,127	81.22	67,079,473	75.72
Personal Property	670,310	0.55	810,383	0.73	801,170	0.90
Uncertified	10,668,374	8.70	0	0.00	0	0.00
Exemptions	<u>(432,175)</u>	<u>(0.35)</u>	<u>(3,060,220)</u>	<u>(2.77)</u>	<u>(746,061)</u>	<u>(0.84)</u>
Total	\$122,629,093*	100.00%	\$110,363,157	100.00%	\$88,592,524	100.00%

<u>Type of Property</u>	<u>2015</u>		<u>2014</u>	
	<u>Assessed Value</u>	<u>%</u>	<u>Assessed Value</u>	<u>%</u>
Land	\$18,304,761	26.31%	\$17,437,832	31.11%
Improvements	51,199,086	73.58	38,296,381	68.32
Personal Property	727,218	1.05	472,446	0.84
Exemptions	<u>(646,112)</u>	<u>(0.93)</u>	<u>(155,662)</u>	<u>(0.28)</u>
Total	\$69,584,953	100.00%	\$56,050,997	100.00%

\* Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$7,423,461 which total is included in the amount of \$122,629,093. The Appraisal District has proposed the valuation of such protested properties to be \$8,282,848. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$3,244,913, which total is also included in the amount of \$122,629,093. The District is unable to predict the amount of the District's final 2018 Assessed Valuation. Such final 2018 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2018.

**Additional Penalties**

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish 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 May 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.

**Principal 2018 Taxpayers**

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2018. The information reflects the composition of property ownership reflected on the District's 2018 tax roll. See "DEVELOPER."

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation 2018 Tax Roll</u>	<u>% of 2018 Tax Roll</u>
McAlister Opportunity Fund	Land	\$2,634,199	2.15%
Terra Grezza Investments	Land	1,713,812	1.40
Pescador Partners, Ltd.	Land and Improvements	1,181,067	0.96
Long Lake, Ltd. *	Land, Improvements and Personal Property	937,044	0.76
Centerpoint Energy	Personal Property	545,490	0.44
BGM Land Investments, Ltd. *	Land	314,473	0.26
Homeowner	Land and Improvements	240,314	0.20
Homeowner	Land and Improvements	238,177	0.19
Homeowner	Land and Improvements	236,435	0.19
Homeowner	Land and Improvements	<u>232,947</u>	<u>0.19</u>
		\$8,273,958	6.75%

\* Related entities. See "DEVELOPER."

**Tax Rate Calculations**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2018 Assessed Valuation or the Estimated Valuation at September 1, 2018. The calculations also assume collection of 95% of taxes levied, no use of other District funds on hand, and the sale of no additional bonds by the District other than the Bonds and the Prior Bonds.

Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2019-2048) .....	\$840,992
Tax Rate of \$0.73 on the 2018 Assessed Valuation (\$122,629,093) produces .....	\$850,433
Tax Rate of \$0.65 on the Estimated Valuation at September 1, 2018 (\$136,685,604) produces .....	\$844,034
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2048) .....	\$864,238
Tax Rate of \$0.75 on the 2018 Assessed Valuation (\$122,629,093) produces .....	\$873,732
Tax Rate of \$0.67 on the Estimated Valuation at September 1, 2018 (\$136,685,604) produces .....	\$870,004

The District anticipates levying a debt service tax of \$0.75 per \$100 of Assessed Valuation, plus a maintenance tax of \$0.70 per \$100 of Assessed Valuation for 2018. As the above calculations indicate, the 2018 debt service tax rate will be sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds given taxable values in the District at the level of the 2018

Assessed Valuation or the Estimated Valuation at September 1, 2018, assuming a tax collection rate of 95%, no use of other funds on hand, and the issuance of no additional bonds by the District. In addition, the District had collected an average of 99.73% of its tax levies for the period 2009 through 2016 as of September 30, 2018, and its 2017 levy was 99.50% collected as of such date. Moreover, the District’s Debt Service Fund balance was \$548,667 as of October 1, 2018. Although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see “APPENDIX B - FINANCIAL REPORT”). The District anticipates that the level of valuation reflected by the Estimated Valuation at September 1, 2018, and future increases in taxable values which are expected to occur as a consequence of the construction of homes on the lots developed by the Developer will enable it to meet the debt service requirements on the Bonds and the Outstanding Bonds without increasing the debt service tax rate above the debt service tax rate which the District anticipates levying for 2018 - \$0.75 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments” and “TAXING PROCEDURES.” In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District expects to finance the acquisition or construction of additional components of the System, and other items, with portions of the proceeds of the sale of bonds, if any, to be issued by the District in the future, including its approximately \$3,000,000 Unlimited Tax Bonds, Series 2019, which it expects to issue in approximately the fourth quarter of 2019. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

**Estimated Overlapping Taxes**

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2017 taxes levied upon property located within the District by entities other than the District, plus the District's anticipated 2018 total tax rate of \$1.45 per \$100 of Assessed Valuation. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see “DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdiction</u>	<u>2017 Tax Rate</u>
The District .....	\$1.450000*
Harris County .....	0.418010
Harris County Department of Education .....	0.005195
Harris County Flood Control District .....	0.028310
Port of Houston Authority .....	0.012560
Harris County Hospital District .....	0.171100
San Jacinto Community College District .....	0.183335
Sheldon Independent School District .....	1.470000
Harris County Emergency Service District No. 60 .....	0.049300
Harris County Emergency Service District No. 2 .....	<u>0.029700</u>
 2017 Total Tax Rate .....	 \$3.817510

\* The District anticipates levying a total tax of \$1.45 per \$100 of Assessed Valuation for the year 2018 consisting of a debt service tax of \$0.75 per \$100 of Assessed Valuation and a maintenance tax of \$0.70 per \$100 of Assessed Valuation.



## **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, 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 above under “THE BONDS - Source of Payment.” Under Texas law, the Board is also authorized to levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System (defined below) and for the payment of certain contractual obligations. See “TAX DATA - Maintenance Tax.”

### **Property Tax Code and County-wide Appraisal District**

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized 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 the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

### **Reappraisal of Property after Disaster**

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. The District has not adopted an Order regarding the reappraisal of property.

### **Tax Payment Installments After Disaster**

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **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; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of

persons 65 years or older and 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, but only to the maximum extent of between \$5,000 and \$12,000 of taxable valuation depending on the disability rating of the veteran. A veteran who receives a disability rating of 100%, and, under certain circumstances, the surviving spouse of such veteran, is entitled to the exemption for the full amount of the residential homestead. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective, January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

**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%) of the appraised market 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 before July 1. See "TAX DATA - Exemptions."

**Freeport Goods Exemption:** 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 includes 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 all prior and subsequent years.

## **Tax Abatement**

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (if it were to annex the District) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone. 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. An appraisal roll is prepared, taxpayer protests are heard by the Appraisal Review Board, and the appraisal roll is certified by the Chief Appraiser. Then it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its 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 of 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 years for agricultural use and taxes for the previous five 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 reappraisals 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 to formally 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 establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

## **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 District 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 District's current year's debt service and contract tax rates plus 1.08 times the District's previous year's operation and maintenance tax rate. Thus, the District's debt service and contract tax rates cannot be changed by a rollback election.

## **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. 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, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

## **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 in 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 each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units (see "TAX DATA - Estimated Overlapping Taxes"). A tax lien on real property takes priority over the claims 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 United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

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

## THE SYSTEM

### Regulation

According to the District's Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City of Houston, Harris County, and the Harris County Flood Control District.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. The total number of equivalent single-family connections ("ESFCs") estimated at this time for the District upon the full development of its approximately 902.78 acres is approximately 4,420.

### Description

The District is comprised of two non-contiguous residential subdivisions, one non-contiguous light industrial tract and one non-contiguous commercial tract. Edgewood Village and Sheldon Ridge are the residential subdivisions, Riverwood is the light industrial tract and the Terra Grezza Tract is the commercial tract. Both of the residential subdivisions are served by a separate water supply, wastewater treatment, and stormwater drainage system. Water and wastewater service will be provided to the Terra Grezza Tract by the Edgewood Village system. The Riverwood tract will be served by private utilities on a separate water and sewer system.

### Water Supply

#### Edgewood Village and Terra Grezza Tract

The source of water supply for Edgewood Village and the Terra Grezza Tract is treated surface water purchased from Harris County Municipal Utility District No. 421 ("MUD 421") pursuant to the "Agreement for Payment of Costs and Use of Water Supply Facilities" dated as of May 22, 2006, and the Joint Financing, Construction, Use and Maintenance Agreement dated as of July 25, 2008 (the "421 Agreements"), as amended, which will ultimately provide the District a total of 1,270 ESFCs of water supply, storage and repressurization capacity for Edgewood and the Terra Grezza Tract.

MUD 421 has completed construction of approximately 14,000 feet of 16-inch transmission main from a City of Houston take point to the site of the MUD 421 Repressurization Plant. The District participated in the cost of this pipeline and the engineering and construction costs for the MUD 421 Repressurization Plant with portions of the proceeds of the sale of the Prior Bonds. The District has constructed a separate 16-inch transmission main to transport the purchased water from MUD 421 to Edgewood Village. A portion of the cost of such transmission main was financed with a portion of the proceeds of the sale of the Prior Bonds.

The 421 Agreements specify that the District has been provided a total of 1,270 ESFCs of water supply, storage and repressurization capacity for Edgewood Village and the Terra Grezza Tract.

#### Sheldon Ridge

The water source for Sheldon Ridge is groundwater purchased from Sheldon Road Municipal Utility District ("Sheldon Road MUD") pursuant to the "Utility Functions and Services Allocation Agreement" dated July 27, 2006, as supplemented (the "Sheldon Road Agreement"). Sheldon Road MUD receives surface water from the North Channel Water Authority, which purchases treated surface water from the City of Houston. Furthermore, Sheldon Road MUD is served by three water supply wells which have a permitted capacity of 2,075 ESFCs.

Sheldon Road MUD currently provides water supply capacity for 1,025 ESFCs. The District's current commitment from the Sheldon Road MUD will serve 610 ESFCs.

Riverwood

The Riverwood tract may be served by a separate water supply, wastewater treatment and stormwater drainage system or by private utilities on a separate water and sewer system.

**Water Line Interconnections**

Edgewood Village and Terra Grezza Tract

The District has a water line interconnection with the City of Houston system through the MUD 421 Water Transmission Line.

Sheldon Ridge

The District has a water line interconnection for Sheldon Ridge through its two metered connections to the Sheldon Road MUD water distribution system. Sheldon Road MUD has three water wells, and thus satisfies TCEQ rules regarding a second source of groundwater supply.

Riverwood

The District does not anticipate having a water line interconnection for Riverwood.

**Wastewater Treatment**

Edgewood Village and Terra Grezza Tract

Wastewater treatment for Edgewood Village is provided by the District's 100,000 gallons-per-day ("gpd") Phase 1 Edgewood Wastewater Treatment Plant. The plant permit for such facility authorizes interim discharges of 100,000 gpd and 250,000 gpd, and a final discharge of 400,000 gpd. The Phase 1 facility will serve 333 ESFCs based on a criterion of 300 gpd/ESFC. The cost of the facility was financed with a portion of the proceeds of the sale of the Prior Bonds.

Sheldon Ridge

Wastewater treatment for Sheldon Ridge is provided by Sheldon Road MUD pursuant to the Sheldon Road Agreement. Sheldon Road MUD is served by two wastewater treatment plants ("WWTP"), Sheldon Woods WWTP and Rolling Hills WWTP. The Rolling Hills plant provides service to District customers in Sheldon Ridge. The Rolling Hills WWTP has a capacity of 220,000 pgd, and can serve 733 ESFCs at 300 gpd/ESFC. The District's current commitment from the Sheldon Road MUD will serve 569 ESFCs in Sheldon Ridge.

Riverwood

The Riverwood tract may be served by a separate water supply, wastewater treatment and stormwater drainage system or by private utilities on a separate water and sewer system.

**Storm Water Drainage**

Storm water drainage for the District is collected by curb and gutters served by underground lines. In Edgewood Village, Section 1 the lines outfall into an existing Texas Department of Transportation drainage system. The remainder of Edgewood Village's storm water will outfall to a detention basin and then to Carpenter's Bayou. Storm water in Sheldon Ridge outfalls to an onsite drainage channel, then to a detention basin and finally to the San Jacinto River by way of a Harris County Flood Control ditch. Riverwood's stormwater will outfall to the San Jacinto River by way of an onsite drainage channel and detention pond.

## **100-Year Flood Plain**

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100 year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100 year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100 year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

### *Edgewood Village and Terra Grezza Tract*

According to the District's Engineer, approximately 38.9 acres of the approximately 198.1 acres that are contained within Edgewood Village are within the current 100-year flood plain as is delineated on the current Federal Emergency Management Agency ("FEMA") Flood Insurance Rate Map ("FIRM") for Harris County, Map No. 48201C0710M, dated January 6, 2017. It is anticipated that approximately 19.1 of the approximately 38.9 acres located within the 100-year FEMA flood plain will be filled and removed from the flood plain for use as future single-family residential development and the remaining approximately 20.9 acres will be used for the stormwater detention basin and the Edgewood wastewater treatment plant. All treatment facilities will be located above and protected from the 100-year water surface elevation.

According to the District's Engineer, approximately 9.95 acres of the approximately 22.5 acres that are contained within the Terra Grezza tract are located within the current 100-year flood plain as is delineated on the current FEMA FIRM for Harris County, Map No. 48201C0710M, dated January 6, 2017. It is anticipated that approximately 2.0 of the approximately 9.95 acres located within the 100-year FEMA flood plain will be filled and removed from the flood plain for use as future commercial development and the remaining approximately 7.95 acres will be used for the stormwater detention basin to serve this tract.

### *Sheldon Ridge*

According to the District's Engineer, no portion of the approximately 378.7 acres that are contained within Sheldon Ridge is located within the current 100-year flood plain as is delineated on the current FEMA FIRM for Harris County, Map Nos. 48201C0520L and 48201C0710M, dated June 18, 2007 and January 6, 2017.

### *Riverwood*

According to the District's Engineer, approximately 25.4 acres of the approximately 303.5 acres that are contained within Riverwood are located within the current 100-year flood plain as is delineated on the current FEMA FIRM for Harris County, Map No. 48201C0730M, dated January 6, 2017.

## **LEGAL MATTERS**

### **Legal Opinions**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, and all taxable property within the District is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount, based upon examination of a transcript of certified proceedings held incident to the issuance and authorization of the Bonds, and the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel for the District, to a like effect and to the effect that (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.

Bond Counsel has reviewed the information appearing in this Official Statement under “THE BONDS” (except for the information under the headings “Book-Entry-Only System” and “Use and Distribution of Bond Proceeds”), “THE DISTRICT - “Management of the District - Bond Counsel and General Counsel,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information, insofar as it relates to matters of law, is true and correct and 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 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. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

#### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened 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.

#### **No Material Adverse Change**

The obligations of the Underwriters to take up 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 financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of sale. If the Underwriter elects to purchase municipal bond guaranty insurance on the Bonds, the rating of the insurer's creditworthiness by any rating agency does not and will not in any manner affect the District's financial condition, and thus any change to such rating, including a downgrade thereof, at any time, does not and will not constitute a change, material or otherwise, in the District's financial condition, and therefore cannot be a basis for termination by the Underwriter of its obligations to take up and pay for 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.

The Internal Revenue Code of 1986 (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 District has covenanted in the Bond Resolution that they will comply with these requirements.



Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond 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 Bond 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.

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 IRS. 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 Internal Revenue Service (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") is 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 Underwriter 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 District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2018 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2018.

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

## OFFICIAL STATEMENT

### General

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Developer (see "DEVELOPER"), the Tax Assessor/Collector and other sources believed to be reliable; however, no representation is made by the District as to the accuracy or completeness of the information contained herein, except as described below under "Certification as to Official Statement." The summaries of the statutes, contracts, resolutions and engineering and other related reports set forth herein are included 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.

The District's financial statements for the fiscal year ended May 31, 2018, were audited by McGrath & Co., PLLC, Certified Public Accountants, and have been included herein as "APPENDIX B." McGrath & Co., PLLC, Certified Public Accountants, has agreed to the publication of such financial statements in this Official Statement.

### Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE BONDS - Use and Distribution of Bond Proceeds," "THE DISTRICT" and "THE SYSTEM" has been provided by IDS Engineering Group, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "DISTRICT DEBT" and "TAX DATA" was provided by Mr. Bob Leared and Bob Leared Interests and the Appraisal District. Such information has been included herein in reliance upon Mr. Leared's and Bob Leared Interests' authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of tax assessing.

### Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

### Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriter is no longer required to provide an Official Statement to customers who request same pursuant to the Rule, the District learns, 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 so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the "end of the underwriting period" as defined in the Rule or (ii) the date the Official Statement is filed with the MSRB, but in no case less than 25 days after the "end of the underwriting period."

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made 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 events to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

### Annual Reports

The District will provide certain updated financial information and operating data annually. The information to be updated 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 “DISTRICT DEBT,” “TAX DATA,” and in “APPENDIX B - FINANCIAL REPORT.” The District will update and provide this information within six months after the end of each of its fiscal years ending in and after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30, 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.

### 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 determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax 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 SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of SEC Rule 15c2-12, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; 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**

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system 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 certain 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 to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, 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 such 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 such 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 Underwriter 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 in all material respects with its continuing disclosure agreements made by it in accordance with the Rule.

This Official Statement was approved by the Board of Directors of Northeast Harris County Municipal Utility District No. 1 as of the date shown on the first page hereof.

/s/ James Moffatt  
President, Board of Directors  
Northeast Harris County Municipal  
Utility District No. 1

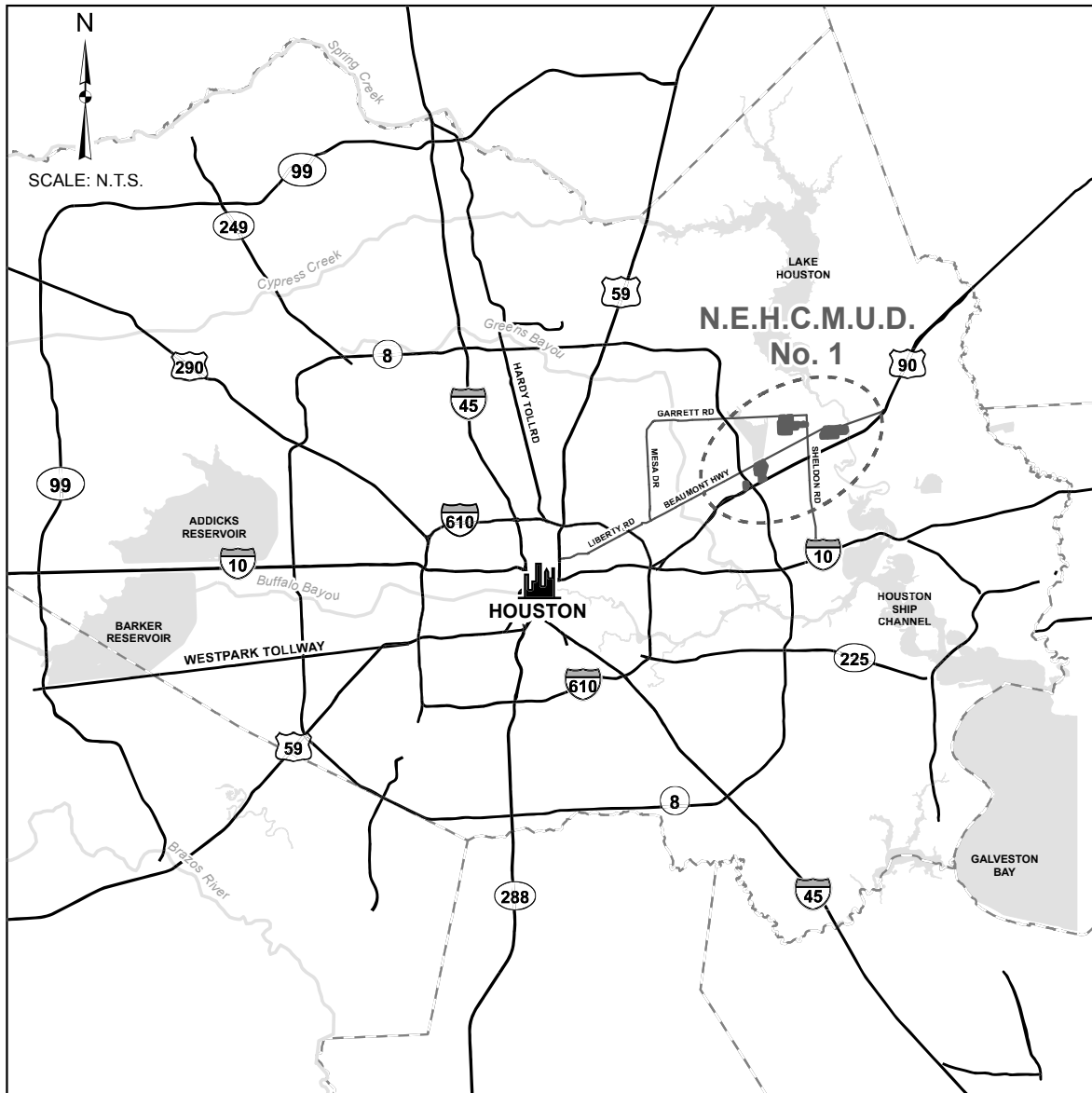
ATTEST:

/s/ Rebecca Velasco  
Assistant Secretary, Board of Directors  
Northeast Harris County Municipal  
Utility District No. 1



APPENDIX A

LOCATION MAP



HARRIS COUNTY AREA MAP

LOCATION MAP  
OF  
**NORTHEAST HARRIS COUNTY**  
**M.U.D. No. 1**  
HARRIS COUNTY, TEXAS  
JULY 2017





**APPENDIX B**

**NORTHEAST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**MAY 31, 2018**



**NORTHEAST HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 1**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**May 31, 2018**



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# McGRATH & CO., PLLC

*Certified Public Accountants*  
2500 Tanglewilde, Suite 340  
Houston, Texas 77063

## Independent Auditors' Report

Board of Directors  
Northeast Harris County Municipal Utility District No. 1  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Northeast Harris County Municipal Utility District No. 1, as of and for the year ended May 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinions.

***Board of Directors  
Northeast Harris County Municipal Utility District No. 1  
Harris County, Texas***

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Northeast Harris County Municipal Utility District No. 1, as of May 31, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other-Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*McGuire & Co, P.C.*

Houston, Texas  
October 1, 2018



## **Management's Discussion and Analysis**

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***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

**Using this Annual Report**

Within this section of the financial report of Northeast Harris County Municipal Utility District No. 1 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

**Overview of the Financial Statements**

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

**Government-Wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
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The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

**Fund Financial Statements**

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

**Financial Analysis of the District as a Whole**

The District's net position at May 31, 2018, was negative \$4,444,296. A comparative summary of the District's overall financial position, as of May 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 2,265,790	\$ 1,569,934
Capital assets	14,802,448	12,973,543
Total assets	<u>17,068,238</u>	<u>14,543,477</u>
 Total deferred outflows of resources	 <u>129,935</u>	 <u>                    </u>
 Current liabilities	 2,342,424	 1,746,753
Long-term liabilities	19,300,045	16,755,245
Total liabilities	<u>21,642,469</u>	<u>18,501,998</u>
 Net position		
Net investment in capital assets	(5,427,353)	(4,164,009)
Restricted	882,381	686,782
Unrestricted	100,676	(481,294)
Total net position	<u>\$ (4,444,296)</u>	<u>\$ (3,958,521)</u>

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

The total net position of the District decreased during the current fiscal year by \$485,775. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Property taxes, penalties and interest	\$ 1,631,495	\$ 1,336,393
Water and sewer service	580,002	512,153
Other	135,824	87,308
Total revenues	<u>2,347,321</u>	<u>1,935,854</u>
Expenses		
Current service operations	1,347,221	1,188,063
Debt interest and fees	439,491	377,331
Developer interest	325,363	308,205
Debt issuance costs	398,672	150,838
Depreciation and amortization	322,349	267,423
Total expenses	<u>2,833,096</u>	<u>2,291,860</u>
Change in net position before other item	(485,775)	(356,006)
Other item		
Litigation settlement		<u>(55,201)</u>
Change in net position	(485,775)	(411,207)
Net position, beginning of year	<u>(3,958,521)</u>	<u>(3,547,314)</u>
Net position, end of year	<u><u>\$ (4,444,296)</u></u>	<u><u>\$ (3,958,521)</u></u>

**Financial Analysis of the District's Funds**

The District's combined fund balances, as of May 31, 2018, were \$1,936,312, which consists of \$947,454 in the General Fund, \$972,866 in the Debt Service Fund, and \$15,992 in the Capital Projects Fund.

*General Fund*

A comparative summary of the General Fund's financial position as of May 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u><u>\$ 1,244,565</u></u>	<u><u>\$ 797,368</u></u>
Total liabilities	\$ 271,572	\$ 161,888
Total deferred inflows	25,539	17,019
Total fund balance	947,454	618,461
Total liabilities, deferred inflows and fund balance	<u><u>\$ 1,244,565</u></u>	<u><u>\$ 797,368</u></u>

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 1,596,477	\$ 1,345,025
Total expenditures	(1,267,484)	(1,048,134)
Revenues over expenditures	328,993	296,891
Other changes in fund balance		(55,201)
Net change in fund balance	<u>\$ 328,993</u>	<u>\$ 241,690</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.

*Debt Service Fund*

A comparative summary of the Debt Service Fund's financial position as of May 31, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 1,005,233</u>	<u>\$ 791,647</u>
Total liabilities	\$ 901	\$ 743
Total deferred inflows	31,466	20,641
Total fund balance	972,866	770,263
Total liabilities, deferred inflows and fund balance	<u>\$ 1,005,233</u>	<u>\$ 791,647</u>

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 731,235	\$ 589,777
Total expenditures	(705,688)	(448,169)
Revenues over expenditures	25,547	141,608
Other changes in fund balance	177,056	
Net change in fund balance	<u>\$ 202,603</u>	<u>\$ 141,608</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

During the current year, the District issued \$2,850,000 in refunding bonds to refund \$2,750,000 of its outstanding Series 2010 and Series 2011 bonds. This refunding will save the District \$481,624 in future debt service requirements.

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund's financial position as of May 31, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 15,992</u>	<u>\$ 22,149</u>
Total liabilities	\$ -	\$ 41,230
Total fund balance	15,992	(19,081)
Total liabilities and fund balance	<u>\$ 15,992</u>	<u>\$ 22,149</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2018	2017
Total revenues	\$ 264	\$ 350
Total expenditures	(2,905,219)	(3,053,136)
Revenues under expenditures	(2,904,955)	(3,052,786)
Other changes in fund balance	2,940,028	2,870,615
Net change in fund balance	<u>\$ 35,073</u>	<u>\$ (182,171)</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2017 Bond Anticipation Note and Series 2017 Unlimited Tax

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

Bonds in the current year and issuance of its Series 2016 Unlimited Tax Bonds and Series 2016 Bond Anticipation Note in the prior year.

**General Fund Budgetary Highlights**

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$60,572 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

**Capital Assets**

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at May 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 2,848,501</u>	<u>\$ 2,692,888</u>
Capital assets being depreciated/amortized		
Infrastructure	12,284,403	10,526,770
Interest in joint facilities	1,415,934	1,415,934
Landscaping improvements	238,008	
	<u>13,938,345</u>	<u>11,942,704</u>
Less accumulated depreciation/amortization		
Infrastructure	(1,781,119)	(1,506,175)
Interest in joint facilities	(187,412)	(155,874)
Landscaping improvements	(15,867)	
	<u>(1,984,398)</u>	<u>(1,662,049)</u>
Depreciable capital assets, net	<u>11,953,947</u>	<u>10,280,655</u>
Capital assets, net	<u>\$ 14,802,448</u>	<u>\$ 12,973,543</u>

Capital asset additions during the current year include the following:

- Sheldon Ridge, Section 9 – water, sewer and drainage facilities
- Sheldon Ridge, Section 8 – water, sewer and drainage facilities



***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

- Edgewood Village, Section 5 – water, sewer and drainage facilities
- Edgewood Village landscaping and irrigation improvements

**Long-Term Debt and Related Liabilities**

As of May 31, 2018, the District owes \$8,357,791 to its developer for completed projects and operating advances. As discussed in Note 7, the District has an additional commitment in the amount of \$1,910,029 for projects under construction by the developer. As previously mentioned, the District will owe its developer for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developer from proceeds of future bond issues.

At May 31, 2018 and 2017, the District had total bonded debt outstanding as shown below:

Series	2018	2017
2010	\$ 35,000	\$ 1,345,000
2011	85,000	1,595,000
2014	2,470,000	2,500,000
2015	1,350,000	1,370,000
2016	1,700,000	1,700,000
2017	2,730,000	
2017 Refunding	2,850,000	
	<u>\$ 11,220,000</u>	<u>\$ 8,510,000</u>

During the year, the District issued \$2,730,000 in unlimited tax bonds for water, sanitary sewer, and drainage facilities and \$2,850,000 in unlimited tax refunding bonds. At May 31, 2018, the District had \$156,375,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and refunding purposes and \$14,000,000 for parks and recreational facilities and refunding purposes.

During the year, the District issued a \$1,758,000 bond anticipation note (BAN) to provide short term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

**Next Year's Budget**

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers.

***Northeast Harris County Municipal Utility District No. 1  
Management's Discussion and Analysis  
May 31, 2018***

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 1,596,477	\$ 1,480,647
Total expenditures	<u>(1,267,484)</u>	<u>(1,033,342)</u>
Revenues over expenditures	328,993	447,305
Beginning fund balance	618,461	947,454
Ending fund balance	<u><u>\$ 947,454</u></u>	<u><u>\$ 1,394,759</u></u>

**Property Taxes**

The District's property tax base increased approximately \$1,379,000 for the 2018 tax year from \$110,582,112 to \$111,960,719. This increase was primarily due to new construction in the District and increased property values. For the 2018 tax year, the District will levy a maintenance tax rate of \$0.70 per \$100 of assessed value and a debt service tax rate of \$0.75 per \$100 of assessed value, for a total combined tax rate of \$1.45 per \$100. Tax rates for the 2017 tax year were \$0.80 per \$100 for maintenance and operations and \$0.65 per \$100 for debt service.

## **Basic Financial Statements**

**Northest Harris County Municipal Utility District No. 1**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**May 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 61,578	\$ 42,338	\$ 47,955	\$ 151,871	\$ -	\$ 151,871
Investments	1,041,292	930,772	14,305	1,986,369		1,986,369
Taxes receivable	25,539	31,466		57,005		57,005
Customer service receivables, net	64,799			64,799		64,799
Internal balances	45,611	657	(46,268)			
Operating reserve - joint repressurization plant	5,746			5,746		5,746
Capital assets not being depreciated					2,848,501	2,848,501
Capital assets, net					11,953,947	11,953,947
<b>Total Assets</b>	<b>\$ 1,244,565</b>	<b>\$ 1,005,233</b>	<b>\$ 15,992</b>	<b>\$ 2,265,790</b>	<b>14,802,448</b>	<b>17,068,238</b>
<b>Deferred Outflows of Resources</b>						
Deferred difference on refunding					129,935	129,935
<b>Liabilities</b>						
Accounts payable	\$ 86,159	\$ -	\$ -	\$ 86,159		86,159
Other payables	8,332	901		9,233		9,233
Customer deposits	52,035			52,035		52,035
Unearned revenue	155			155		155
Due to other governments	124,891			124,891		124,891
Accrued interest payable					121,951	121,951
Bond anticipation note payable					1,758,000	1,758,000
Due to developer					8,357,791	8,357,791
Long-term debt						
Due within one year					190,000	190,000
Due after one year					10,942,254	10,942,254
<b>Total Liabilities</b>	<b>271,572</b>	<b>901</b>		<b>272,473</b>	<b>21,369,996</b>	<b>21,642,469</b>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	25,539	31,466		57,005	(57,005)	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	5,746			5,746	(5,746)	
Restricted		972,866		972,866	(972,866)	
Unassigned	941,708		15,992	957,700	(957,700)	
<b>Total Fund Balances</b>	<b>947,454</b>	<b>972,866</b>	<b>15,992</b>	<b>1,936,312</b>	<b>(1,936,312)</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,244,565</b>	<b>\$ 1,005,233</b>	<b>\$ 15,992</b>	<b>\$ 2,265,790</b>		
<b>Net Position</b>						
Net investment in capital assets					(5,427,353)	(5,427,353)
Restricted for debt service					882,381	882,381
Unrestricted					100,676	100,676
<b>Total Net Position</b>					<b>\$ (4,444,296)</b>	<b>\$ (4,444,296)</b>

See notes to basic financial statements.

**Northest Harris County Municipal Utility District No. 1**  
**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended May 31, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Water service	\$ 245,768	\$ -	\$ -	\$ 245,768	\$ -	\$ 245,768
Sewer service	334,234			334,234		334,234
Property taxes	876,201	711,653		1,587,854	15,698	1,603,552
Penalties and interest	13,873	10,423		24,296	3,647	27,943
Tap connection and inspection	115,692			115,692		115,692
Miscellaneous	1,455			1,455		1,455
Investment earnings	9,254	9,159	264	18,677		18,677
<b>Total Revenues</b>	<b>1,596,477</b>	<b>731,235</b>	<b>264</b>	<b>2,327,976</b>	<b>19,345</b>	<b>2,347,321</b>
<b>Expenditures/Expenses</b>						
Current service operations						
Purchased services	423,119			423,119		423,119
Professional fees	149,772		52,910	202,682		202,682
Contracted services	257,332	24,151		281,483		281,483
Repairs and maintenance	373,248			373,248		373,248
Utilities	12,101			12,101		12,101
Administrative	40,406	2,590	86	43,082		43,082
Other	11,506			11,506		11,506
Capital outlay			2,274,005	2,274,005	(2,274,005)	
Debt service						
Principal		120,000		120,000	(120,000)	
Debt interest and fees		397,153	15,977	413,130	26,361	439,491
Developer interest			325,363	325,363		325,363
Debt issuance costs		161,794	236,878	398,672		398,672
Depreciation and amortization					322,349	322,349
<b>Total Expenditures/Expenses</b>	<b>1,267,484</b>	<b>705,688</b>	<b>2,905,219</b>	<b>4,878,391</b>	<b>(2,045,295)</b>	<b>2,833,096</b>
<b>Revenues Over/(Under)</b>						
<b>Expenditures</b>	328,993	25,547	(2,904,955)	(2,550,415)	2,550,415	
<b>Other Financing Sources/(Uses)</b>						
Proceeds from sale of bonds			2,730,000	2,730,000	(2,730,000)	
Proceeds from sale of refunded bonds		2,850,000		2,850,000	(2,850,000)	
Bond discount			(81,900)	(81,900)	81,900	
Bond premium		141,024		141,024	(141,024)	
Payment to refunded bond escrow agent		(1,538,968)		(1,538,968)	1,538,968	
Debt service - principal		(1,275,000)		(1,275,000)	1,275,000	
Proceeds from bond anticipation note			1,758,000	1,758,000	(1,758,000)	
Repayment of bond anticipation note			(1,360,000)	(1,360,000)	1,360,000	
Repayment of developer advances			(106,072)	(106,072)	106,072	
<b>Net Change in Fund Balances</b>	328,993	202,603	35,073	566,669	(566,669)	
<b>Change in Net Position</b>					(485,775)	(485,775)
Fund Balance/Net Position						
Beginning of the year	618,461	770,263	(19,081)	1,369,643	(5,328,164)	(3,958,521)
<b>End of the year</b>	<b>\$ 947,454</b>	<b>\$ 972,866</b>	<b>\$ 15,992</b>	<b>\$ 1,936,312</b>	<b>\$ (6,380,608)</b>	<b>\$ (4,444,296)</b>

See notes to basic financial statements.

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## **Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Northeast Harris County Municipal Utility District No. 1 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

### **Creation**

The District was organized, created and established pursuant to an order of the Texas Water Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated July 18, 1978, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on October 26, 2006 and the first bonds were sold on February 18, 2010.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

### **Reporting Entity**

The District is a political subdivision of the State of Texas governed by an elected five-member board. The Governmental Accounting Standards Board has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

### **Government-Wide and Fund Financial Statements**

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

**Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.



**Note 1 – Summary of Significant Accounting Policies (continued)**

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At May 31, 2018, an allowance of \$4,000 was provided for possible uncollectible water/sewer accounts. An allowance for possible uncollectible property taxes was not considered necessary.

**Interfund Activity**

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

**Capital Assets**

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated or amortized using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Interest in joint facilities	45 years [max]
Landscaping improvements	15 years

The District’s detention facilities are considered improvements to land and are non-depreciable.

**Deferred Inflows and Outflows of Financial Resources**

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Deferred Inflows and Outflows of Financial Resources (continued)**

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

**Net Position – Governmental Activities**

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of operating reserves paid to Harris County Municipal Utility District No. 421 for the joint repressurization plant.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*May 31, 2018*

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fund Balances – Governmental Funds (continued)**

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned - all other spendable amounts in the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

***Northeast Harris County Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***May 31, 2018***

**Note 2 – Adjustment from Governmental to Government-wide Basis**

**Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position***

Total fund balance, governmental funds		\$ 1,936,312
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	\$ 16,786,846	
Less accumulated depreciation/amortization	<u>(1,984,398)</u>	
Change due to capital assets		14,802,448
<p>The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.</p>		
		129,935
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	(11,132,254)	
Bond anticipation note payable	(1,758,000)	
Interest payable on bonds	<u>(121,951)</u>	
Change due to long-term debt		(13,012,205)
<p>Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(8,357,791)
<p>Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
Property taxes receivable	44,594	
Penalty and interest receivable	<u>12,411</u>	
Change due to property taxes		57,005
Total net position - governmental activities		<u><u>\$ (4,444,296)</u></u>

***Northeast Harris County Municipal Utility District No. 1  
Notes to Basic Financial Statements  
May 31, 2018***

**Note 2 – Adjustment from Governmental to Government-wide Basis (continued)**

***Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities***

Net change in fund balances - total governmental funds \$ 566,669

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. 19,345

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 2,274,005	
Depreciation and amortization	(322,349)	
		1,951,656

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Proceeds from sale of bonds	(2,730,000)	
Proceeds from sale of refunding bonds	(2,850,000)	
Proceeds from bond anticipation note	(1,758,000)	
Bond discount	81,900	
Bond premium	(141,024)	
Payment to refunding bond escrow agent	1,538,968	
Principal payments	1,395,000	
Retirement of bond anticipation note	1,360,000	
Interest expense accrual	(26,361)	
		(3,129,517)

Amounts repaid to the developer for operating advances reduce the liability in the *Statement of Net Position*. 106,072

Change in net position of governmental activities	\$ (485,775)
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**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

**Investments**

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of May 31, 2018, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 1,041,292	AAAm	28 days
	Debt Service	930,772		
	Capital Projects	14,305		
Total		<u>\$ 1,986,369</u>		

*Northeast Harris County Municipal Utility District No. 1  
Notes to Basic Financial Statements  
May 31, 2018*

**Note 3 – Deposits and Investments (continued)**

**TexPool**

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

**Investment Credit and Interest Rate Risk**

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

**Note 4 – Interfund Balances and Transactions**

Amounts due to/from other funds at May 31, 2018, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 4,565	Maintenance tax collections not remitted as of year end.
General Fund	Capital Projects Fund	46,268	Bond application fees paid by the General Fund.
Debt Service Fund	General Fund	5,222	Proceeds from the sale of refunding bonds in excess of bond application fees paid by the General Fund.

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

***Northeast Harris County Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***May 31, 2018***

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended May 31, 2018, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 2,692,888	\$ 155,613	\$ 2,848,501
Capital assets being depreciated/amortized			
Infrastructure	10,526,770	1,757,633	12,284,403
Interest in joint facilities	1,415,934		1,415,934
Landscaping improvements		238,008	238,008
	<u>11,942,704</u>	<u>1,995,641</u>	<u>13,938,345</u>
Less accumulated depreciation/amortization			
Infrastructure	(1,506,175)	(274,944)	(1,781,119)
Interest in joint facilities	(155,874)	(31,538)	(187,412)
Landscaping improvements		(15,867)	(15,867)
	<u>(1,662,049)</u>	<u>(322,349)</u>	<u>(1,984,398)</u>
Subtotal depreciable capital assets, net	<u>10,280,655</u>	<u>1,673,292</u>	<u>11,953,947</u>
Capital assets, net	<u>\$ 12,973,543</u>	<u>\$ 1,828,905</u>	<u>\$ 14,802,448</u>

Depreciation expense for the current year was \$322,349.

**Note 6 – Bond Anticipation Note**

The District uses a bond anticipation note (BAN) to provide short term financing for reimbursements to its developer. Despite its short term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$1,360,000. This BAN was repaid on August 17, 2017 with proceeds from the issuance of the District's Series 2017 Unlimited Tax Bonds.

On December 11, 2017, the District issued a \$1,758,000 BAN with an interest rate of 1.761% which is due on December 10, 2018.



*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*May 31, 2018*

**Note 6 – Bond Anticipation Note (continued)**

The effect of this transaction on the District’s short term obligations are as follows:

Beginning balance	\$ 1,360,000
Amounts borrowed	1,758,000
Amounts repaid	<u>(1,360,000)</u>
Ending balance	<u>\$ 1,758,000</u>

**Note 7 – Due to Developer**

The District has entered into a financing agreement with its developer for the financing of the construction of water, sewer, drainage and park and recreational facilities. Under the agreement, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The District’s developer has also advanced funds to the District for operating expenses.

Changes in amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 8,586,614
Developer reimbursements	(2,274,005)
Developer funded construction and adjustments	2,151,254
Repayment of operating advances	<u>(106,072)</u>
Due to developer, end of year	<u>\$ 8,357,791</u>

In addition, the District will owe its developer approximately \$1,910,029, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Edgewood Village, Phase II - detention facilities	\$ 324,543	\$ 75,331	\$ 249,212
Clearing and grubbing to serve Sheldon Ridge, Sections 6 and 7 and detention facilities, Phase II	248,849	141,156	107,693
Utilities to serve Sheldon Ridge, Section 10	308,000	294,636	13,364
Sheldon Ridge - detention facilities, Phase II	448,637		448,637
Utilities to serve Edgewood Village, Section 6	580,000		580,000
	<u>\$ 1,910,029</u>	<u>\$ 511,123</u>	<u>\$ 1,398,906</u>

*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*May 31, 2018*

**Note 8 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 11,220,000
Unamortized discounts	(222,360)
Unamortized premium	134,614
	<u>\$ 11,132,254</u>
Due within one year	<u>\$ 190,000</u>

The District’s bonds payable at May 31, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2010	\$ 35,000	\$ 1,500,000	4.25% - 5.375%	September 1, 2011/2036	September 1, March 1	September 1, 2017
2011	85,000	1,725,000	4.00% - 5.50%	September 1, 2013/2038	September 1, March 1	September 1, 2018
2014	2,470,000	2,500,000	2.00% - 4.40%	September 1, 2017/2042	September 1, March 1	September 1, 2021
2015	1,350,000	1,370,000	2.0% - 4.125%	September 1, 2017/2044	September 1, March 1	September 1, 2022
2016	1,700,000	1,700,000	2.0% - 3.625%	September 1, 2018/2046	September 1, March 1	September 1, 2023
2017	2,730,000	2,730,000	3.0% - 5.50%	September 1, 2019/2046	September 1, March 1	September 1, 2024
2017R	2,850,000	2,850,000	2.0% - 4.0%	September 1, 2018/2038	September 1, March 1	September 1, 2024
	<u>\$ 11,220,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At May 31, 2018, the District had authorized but unissued bonds in the amount of \$156,375,000 for water, sewer and drainage facilities and refunding purposes and \$14,000,000 for park and recreational facilities and refunding purposes.

*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*May 31, 2018*

**Note 8 – Long-Term Debt (continued)**

On August 17, 2017, the District issued its \$2,730,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.7666%. Proceeds of the bonds were used to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and to repay a \$1,360,000 BAN issued in the previous fiscal year.

On November 28, 2017, the District issued its \$2,850,000 Unlimited Tax Refunding Bonds at a net effective interest rate of 3.15822038% to refund \$1,275,000 of outstanding Series 2010 bonds and advance refund \$1,475,000 of outstanding Series 2011 bonds. The District refunded the bonds to reduce total debt service payments over future years by approximately \$481,624 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$328,329. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments. As a result, the Series 2011 refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements. As of May 31, 2018, the Series 2010 refunded bonds have all been redeemed and are no longer outstanding and the outstanding principal of Series 2011 defeased bonds is \$1,475,000.

The change in the District's long term debt during the year is as follows:

Bonds payable, beginning of year	\$	8,510,000
Bonds issued		5,580,000
Bonds retired		(120,000)
Bonds refunded		(2,750,000)
Bonds payable, end of year	\$	<u>11,220,000</u>

*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*May 31, 2018*

**Note 8 – Long-Term Debt (continued)**

As of May 31, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 190,000	\$ 422,334	\$ 612,334
2020	220,000	415,822	635,822
2021	230,000	408,331	638,331
2022	240,000	400,531	640,531
2023	245,000	392,320	637,320
2024	255,000	383,681	638,681
2025	260,000	374,531	634,531
2026	270,000	365,133	635,133
2027	285,000	355,319	640,319
2028	295,000	344,951	639,951
2029	305,000	334,146	639,146
2030	315,000	322,887	637,887
2031	330,000	310,996	640,996
2032	340,000	298,452	638,452
2033	355,000	285,267	640,267
2034	370,000	271,479	641,479
2035	385,000	257,107	642,107
2036	400,000	242,003	642,003
2037	420,000	226,026	646,026
2038	435,000	209,236	644,236
2039	455,000	191,711	646,711
2040	495,000	172,597	667,597
2041	515,000	151,750	666,750
2042	540,000	129,855	669,855
2043	565,000	106,846	671,846
2044	585,000	83,572	668,572
2045	615,000	59,874	674,874
2046	640,000	35,969	675,969
2047	665,000	12,141	677,141
	\$ 11,220,000	\$ 7,564,867	\$ 18,784,867

**Note 9 – Property Taxes**

On May 12, 2007, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

*Northeast Harris County Municipal Utility District No. 1  
Notes to Basic Financial Statements  
May 31, 2018*

**Note 9 – Property Taxes (continued)**

All property values and exempt status, if any, are determined by the Harris County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$1.45 per \$100 of assessed value, of which \$0.80 was allocated to maintenance and operations and \$0.65 was allocated to debt service. The resulting tax levy was \$1,603,441 on the adjusted taxable value of \$110,582,112.

Property taxes receivable, at May 31, 2018, consisted of the following:

Current year taxes receivable	\$ 31,205
Prior years taxes receivable	13,389
	<hr/>
	44,594
Penalty and interest receivable	12,411
Total property taxes receivable	<hr/> <hr/>
	\$ 57,005

**Note 10 – Agreement for Water Supply Facilities**

The District and Harris County Municipal Utility District No. 421 (“MUD 421”) have entered into an Agreement for Payment of Costs and Use of Joint Facilities (the “Agreement”) for the design and construction of facilities to serve both districts with treated surface water purchased from the City of Houston. The facilities were designed and constructed so as to serve 2,100 equivalent single family connections with MUD 421 receiving 1,150 connections and the District receiving 950. The Agreement shall continue for an unlimited duration. The water supply under this Agreement is intended to serve the portion of the District known as Edgewood Village.

On July 25, 2008 the District and MUD 421 amended the agreement to redistribute the number of equivalent single family connections with MUD 421 receiving 830 connections and the District receiving 1,270. The new pro-rata share of connections reflects the interest and costs associated with the facilities.

MUD 421 holds title to the facilities and the District owns an equitable interest (based on its prorata share of equivalent single family connections). MUD 421 is responsible for the operation, maintenance and repair of the facilities, subject to pro-rata payments by the District for its share of these costs. During the current fiscal year, the District recorded \$87,009 in expenditures for water purchased from MUD 421. The District has also paid an operating reserve, which is based on its prorata share of a month’s worth of MUD 421’s budgeted operating expenses, which is \$5,746.

**Note 11 – Utility Functions and Services Allocation Agreement with Sheldon Road Municipal Utility District**

The District and Sheldon Road Municipal Utility District (“Sheldon Road MUD”) have entered into a Utility Functions and Services Allocation Agreement (the “Utility Agreement”) for the purposes of supplying an area of the District known as Sheldon Ridge with water and wastewater services from Sheldon Road MUD. The initial stages of development in the District will be served through Sheldon Road MUD’s existing capacity. The District recorded \$336,110 in expenditures to Sheldon Road MUD pursuant to the terms of this Utility Agreement during the fiscal year.

At such time as Sheldon Road MUD’s existing facilities reach 75% capacity, the District and Sheldon Road MUD will determine the extent of expansion required and the general design criteria. The District shall be responsible for the cost of the expansion.

Sheldon Road MUD may obtain additional capacity from North Channel Water Authority in order to meet the surface water requirements of the Harris-Galveston Coast Subsidence District. The District agrees to pay its pro-rata share of the capital cost to obtain such additional capacity.

On February 24, 2011, the agreement was amended to include an emergency preparedness plan that Sheldon Road MUD has filed with TCEQ. Sheldon Road MUD agrees to provide the District with emergency operations during extended power outages resulting from natural disasters.

**Note 12 – Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**Note 13 – Subsequent Event**

On October 1, 2018, the District approved a preliminary official statement and notice of sale for its Series 2018 Unlimited Tax Bonds in the amount of \$3,500,000. The acceptance of bids and award of sale is scheduled for October 23, 2018 and funding set for November 27, 2018. Proceeds of the bonds will primarily be used to reimburse developers for amounts currently reported in “Due to developer.”

## **Required Supplementary Information**

***Northeast Harris County Municipal Utility District No. 1***  
***Required Supplementary Information - Budgetary Comparison Schedule - General Fund***  
***For the Year Ended May 31, 2018***

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water service	\$ 204,000	\$ 245,768	\$ 41,768
Sewer service	276,000	334,234	58,234
Property taxes	695,000	876,201	181,201
Penalties and interest	15,600	13,873	(1,727)
Tap connection and inspection	90,368	115,692	25,324
Miscellaneous	1,395	1,455	60
Investment earnings	1,500	9,254	7,754
Total Revenues	<u>1,283,863</u>	<u>1,596,477</u>	<u>312,614</u>
<b>Expenditures</b>			
Current service operations			
Purchased services	243,600	423,119	(179,519)
Professional fees	130,500	149,772	(19,272)
Contracted services	244,476	257,332	(12,856)
Repairs and maintenance	307,411	373,248	(65,837)
Utilities	13,200	12,101	1,099
Administrative	35,431	40,406	(4,975)
Other	40,824	11,506	29,318
Total Expenditures	<u>1,015,442</u>	<u>1,267,484</u>	<u>(252,042)</u>
<b>Revenues Over Expenditures</b>	268,421	328,993	60,572
<b>Fund Balance</b>			
Beginning of the year	618,461	618,461	
<b>End of the year</b>	<u>\$ 886,882</u>	<u>\$ 947,454</u>	<u>\$ 60,572</u>



*Northeast Harris County Municipal Utility District No. 1*  
*Notes to Required Supplementary Information*  
*May 31, 2018*

**Budgets and Budgetary Accounting**

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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## **Texas Supplementary Information**

**Northeast Harris County Municipal Utility District No. 1**  
**TSI-1. Services and Rates**  
**May 31, 2018**

1. Services provided by the District During the Fiscal Year:

- |  |   |   |  |
|--|---|---|--|
| <input checked="" type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input checked="" type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater  | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control                  | <input type="checkbox"/> Irrigation          |
| <input checked="" type="checkbox"/> Parks / Recreation   | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Roads                          | <input type="checkbox"/> Security            |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |   |  |
| <input type="checkbox"/> Other (Specify): _____  |   |   |  |

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>	
Water:	\$ 29.00	6,000	N	\$ 1.75	6,001	to 10,000
				\$ 2.00	10,001	to 15,000
				\$ 2.25	15,001	to 20,000
				\$ 2.50	20,001	to no limit
Wastewater:	\$ 40.50	6,000	N	\$ 1.50	6,001	to no limit

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 36.00 Wastewater \$ 46.50

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered			x 1.0	
less than 3/4"	734	730	x 1.0	730
1"			x 2.5	
1.5"			x 5.0	
2"	1	1	x 8.0	8
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	735	731		738
Total Wastewater	731	727	x 1.0	727

See accompanying auditor's report.

**Northest Harris County Municipal Utility District No. 1**  
**TSI-1. Services and Rates**  
**May 31, 2018**

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):  
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>27,298,000</u>	From Sheldon Road MUD/ Harris County MUD 421
Gallons billed to customers:	<u>24,627,000</u>	Water Accountability Ratio: (Gallons billed / Gallons pumped)
		<u>90.22%</u>

4. Standby Fees (authorized only under TWC Section 49.231):  
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes  No

If yes, Date of the most recent commission Order: \_\_\_\_\_

Does the District have Operation and Maintenance standby fees? Yes  No

If yes, Date of the most recent commission Order: \_\_\_\_\_

5. Location of District (required for first audit year or when information changes,  
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes  No

County(ies) in which the District is located: Harris County

Is the District located within a city? Entirely  Partly  Not at all

City(ies) in which the District is located: \_\_\_\_\_

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely  Partly  Not at all

ETJs in which the District is located: City of Houston

Are Board members appointed by an office outside the district? Yes  No

If Yes, by whom? \_\_\_\_\_

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1  
TSI-2 General Fund Expenditures  
For the Year Ended May 31, 2018*

Purchased services		\$ 423,119
Professional fees		
Legal		63,852
Audit		10,500
Engineering		75,420
		<u>149,772</u>
Contracted services		
Bookkeeping		17,663
Operator		47,480
Garbage collection		147,749
Tap connection and inspection		44,127
Sludge removal		313
		<u>257,332</u>
Repairs and maintenance		<u>373,248</u>
Utilities		<u>12,101</u>
Administrative		
Directors fees		8,100
Printing and office supplies		14,659
Insurance		5,782
Other		11,865
		<u>40,406</u>
Other		<u>11,506</u>
Total expenditures		<u><u>\$ 1,267,484</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	187,694 kWh	\$ 12,101
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-3. Investments*  
*May 31, 2018*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General				
TexPool	7929600001	Variable	N/A	\$ 1,041,292
Debt Service				
TexPool	7929600003	Variable	N/A	930,772
Capital Projects				
TexPool	7929600002	Variable	N/A	<u>14,305</u>
Total - All Funds				<u><u>\$ 1,986,369</u></u>

See accompanying auditors' report.

**Northest Harris County Municipal Utility District No. 1**  
**TSI-4. Taxes Levied and Receivable**  
**May 31, 2018**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 17,019	\$ 11,877	\$ 28,896	
Adjustments	64	47	111	
Adjusted Receivable	17,083	11,924	29,007	
2017 Original Tax Levy	789,953	641,837	1,431,790	
Adjustments	94,704	76,947	171,651	
Adjusted Tax Levy	884,657	718,784	1,603,441	
Total to be accounted for	901,740	730,708	1,632,448	
Tax collections:				
Current year	867,441	704,795	1,572,236	
Prior years	8,760	6,858	15,618	
Total Collections	876,201	711,653	1,587,854	
Taxes Receivable, End of Year	\$ 25,539	\$ 19,055	\$ 44,594	
Taxes Receivable, By Years				
2017	\$ 17,216	\$ 13,989	\$ 31,205	
2016	1,809	1,416	3,225	
2015	789	708	1,497	
2014 and prior	5,725	2,942	8,667	
Taxes Receivable, End of Year	\$ 25,539	\$ 19,055	\$ 44,594	
	2017	2016	2015	2014
Property Valuations				
Land	\$ 22,997,367	\$ 21,457,942	\$ 18,304,761	\$ 17,437,832
Improvements	89,646,871	67,079,473	51,199,086	38,296,381
Personal Property	776,172	801,170	727,218	472,446
Exemptions	(2,838,298)	(746,061)	(646,112)	(155,662)
Total Property Valuations	\$ 110,582,112	\$ 88,592,524	\$ 69,584,953	\$ 56,050,997
Tax Rates per \$100 Valuation				
Maintenance tax rates	\$ 0.80	\$ 0.83	\$ 0.78	\$ 0.80
Debt service tax rates	0.65	0.65	0.70	0.68
Total Tax Rates per \$100 Valuation	\$ 1.45	\$ 1.48	\$ 1.48	\$ 1.48
Adjusted Tax Levy	\$ 1,603,441	\$ 1,311,169	\$ 1,029,857	\$ 829,555
Percentage of Taxes Collected to Taxes Levied **	98.05%	99.75%	99.85%	99.83%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 12, 2007

\*\* Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditors' report.



*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2010--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
<u>2019</u>	<u>\$ 35,000</u>	<u>\$ 744</u>	<u>\$ 35,744</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011--by Years*  
*May 31, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 40,000	\$ 2,820	\$ 42,820
2020	45,000	990	45,990
	<u>\$ 85,000</u>	<u>\$ 3,810</u>	<u>\$ 88,810</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2014--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 30,000	\$ 101,125	\$ 131,125
2020	30,000	100,525	130,525
2021	30,000	99,887	129,887
2022	30,000	99,175	129,175
2023	40,000	98,250	138,250
2024	35,000	97,175	132,175
2025	40,000	96,000	136,000
2026	40,000	94,670	134,670
2027	45,000	93,225	138,225
2028	50,000	91,547	141,547
2029	45,000	89,814	134,814
2030	50,000	87,993	137,993
2031	50,000	85,992	135,992
2032	60,000	83,793	143,793
2033	60,000	81,332	141,332
2034	60,000	78,813	138,813
2035	65,000	76,188	141,188
2036	70,000	73,353	143,353
2037	75,000	70,251	145,251
2038	80,000	66,880	146,880
2039	80,000	63,400	143,400
2040	320,000	54,700	374,700
2041	340,000	40,260	380,260
2042	360,000	24,860	384,860
2043	385,000	8,470	393,470
	<u>\$ 2,470,000</u>	<u>\$ 1,957,678</u>	<u>\$ 4,427,678</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2015--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 25,000	\$ 51,657	\$ 76,657
2020	25,000	51,157	76,157
2021	25,000	50,657	75,657
2022	25,000	50,031	75,031
2023	25,000	49,282	74,282
2024	25,000	48,531	73,531
2025	25,000	47,781	72,781
2026	25,000	47,000	72,000
2027	25,000	46,156	71,156
2028	25,000	45,266	70,266
2029	25,000	44,344	69,344
2030	25,000	43,406	68,406
2031	25,000	42,438	67,438
2032	25,000	41,437	66,437
2033	25,000	40,437	65,437
2034	25,000	39,437	64,437
2035	25,000	38,437	63,437
2036	25,000	37,438	62,438
2037	25,000	36,437	61,437
2038	25,000	35,437	60,437
2039	25,000	34,438	59,438
2040	25,000	33,437	58,437
2041	25,000	32,437	57,437
2042	25,000	31,438	56,438
2043	25,000	30,422	55,422
2044	350,000	22,688	372,688
2045	375,000	7,734	382,734
	<u>\$ 1,350,000</u>	<u>\$ 1,079,360</u>	<u>\$ 2,429,360</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2016--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 25,000	\$ 57,750	\$ 82,750
2020	25,000	57,250	82,250
2021	25,000	56,750	81,750
2022	25,000	56,250	81,250
2023	25,000	55,750	80,750
2024	25,000	55,125	80,125
2025	25,000	54,375	79,375
2026	25,000	53,625	78,625
2027	25,000	52,875	77,875
2028	25,000	52,125	77,125
2029	25,000	51,375	76,375
2030	25,000	50,625	75,625
2031	25,000	49,828	74,828
2032	25,000	48,984	73,984
2033	25,000	48,141	73,141
2034	25,000	47,297	72,297
2035	25,000	46,438	71,438
2036	25,000	45,562	70,562
2037	25,000	44,688	69,688
2038	25,000	43,813	68,813
2039	25,000	42,936	67,936
2040	25,000	42,063	67,063
2041	25,000	41,187	66,187
2042	25,000	40,313	65,313
2043	25,000	39,422	64,422
2044	25,000	38,515	63,515
2045	25,000	37,609	62,609
2046	500,000	28,094	528,094
2047	525,000	9,516	534,516
	<u>\$ 1,700,000</u>	<u>\$ 1,348,281</u>	<u>\$ 3,048,281</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2017--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ -	\$ 101,188	\$ 101,188
2020	45,000	99,950	144,950
2021	50,000	97,337	147,337
2022	55,000	94,450	149,450
2023	50,000	91,563	141,563
2024	55,000	88,675	143,675
2025	55,000	85,650	140,650
2026	60,000	83,238	143,238
2027	65,000	81,363	146,363
2028	65,000	79,413	144,413
2029	75,000	77,313	152,313
2030	75,000	75,063	150,063
2031	80,000	72,738	152,738
2032	80,000	70,238	150,238
2033	85,000	67,557	152,557
2034	95,000	64,632	159,632
2035	95,000	61,544	156,544
2036	100,000	58,250	158,250
2037	100,000	54,750	154,750
2038	110,000	51,006	161,006
2039	120,000	46,837	166,837
2040	125,000	42,397	167,397
2041	125,000	37,866	162,866
2042	130,000	33,244	163,244
2043	130,000	28,532	158,532
2044	210,000	22,369	232,369
2045	215,000	14,531	229,531
2046	140,000	7,875	147,875
2047	140,000	2,625	142,625
	<u>\$ 2,730,000</u>	<u>\$ 1,792,194</u>	<u>\$ 4,522,194</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2017 Refunding--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 35,000	\$ 107,050	\$ 142,050
2020	50,000	105,950	155,950
2021	100,000	103,700	203,700
2022	105,000	100,625	205,625
2023	105,000	97,475	202,475
2024	115,000	94,175	209,175
2025	115,000	90,725	205,725
2026	120,000	86,600	206,600
2027	125,000	81,700	206,700
2028	130,000	76,600	206,600
2029	135,000	71,300	206,300
2030	140,000	65,800	205,800
2031	150,000	60,000	210,000
2032	150,000	54,000	204,000
2033	160,000	47,800	207,800
2034	165,000	41,300	206,300
2035	175,000	34,500	209,500
2036	180,000	27,400	207,400
2037	195,000	19,900	214,900
2038	195,000	12,100	207,100
2039	205,000	4,100	209,100
	<u>\$ 2,850,000</u>	<u>\$ 1,382,800</u>	<u>\$ 4,232,800</u>

See accompanying auditors' report.

*Northeast Harris County Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*All Bonded Debt Series--by Years*  
*May 31, 2018*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 190,000	\$ 422,334	\$ 612,334
2020	220,000	415,822	635,822
2021	230,000	408,331	638,331
2022	240,000	400,531	640,531
2023	245,000	392,320	637,320
2024	255,000	383,681	638,681
2025	260,000	374,531	634,531
2026	270,000	365,133	635,133
2027	285,000	355,319	640,319
2028	295,000	344,951	639,951
2029	305,000	334,146	639,146
2030	315,000	322,887	637,887
2031	330,000	310,996	640,996
2032	340,000	298,452	638,452
2033	355,000	285,267	640,267
2034	370,000	271,479	641,479
2035	385,000	257,107	642,107
2036	400,000	242,003	642,003
2037	420,000	226,026	646,026
2038	435,000	209,236	644,236
2039	455,000	191,711	646,711
2040	495,000	172,597	667,597
2041	515,000	151,750	666,750
2042	540,000	129,855	669,855
2043	565,000	106,846	671,846
2044	585,000	83,572	668,572
2045	615,000	59,874	674,874
2046	640,000	35,969	675,969
2047	665,000	12,141	677,141
	<u>\$ 11,220,000</u>	<u>\$ 7,564,867</u>	<u>\$ 18,784,867</u>

See accompanying auditors' report.



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***Northeast Harris County Municipal Utility District No. 1***  
***TSI-6. Change in Long-Term Bonded Debt***  
***May 31, 2018***

	Bond Issue			
	Series 2010	Series 2011	Series 2014	Series 2015
Interest rate	4.25% - 5.375%	4.00% - 5.50%	2.00% - 4.40%	2.0% - 4.125%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/11 - 9/1/36	9/1/13 - 9/1/38	9/1/17 - 9/1/42	9/1/17 - 9/1/44
Beginning bonds outstanding	\$ 1,345,000	\$ 1,595,000	\$ 2,500,000	\$ 1,370,000
Bonds refunded	(1,275,000)	(1,475,000)		
Bonds issued				
Bonds retired	<u>(35,000)</u>	<u>(35,000)</u>	<u>(30,000)</u>	<u>(20,000)</u>
Ending bonds outstanding	<u>\$ 35,000</u>	<u>\$ 85,000</u>	<u>\$ 2,470,000</u>	<u>\$ 1,350,000</u>
Interest paid during fiscal year	<u>\$ 35,935</u>	<u>\$ 44,023</u>	<u>\$ 101,725</u>	<u>\$ 52,106</u>
Paying agent's name and city				
Series 2010	Wells Fargo Bank, N.A., Houston, Texas			
Series 2011	Wells Fargo Bank, N.A., Dallas, Texas			
Series 2014, 2015, 2016, 2017, and 2017R	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas			
Bond Authority	Water, Sewer and Drainage and Refunding Bonds	Park and Recreational Facilities and Refunding Bonds		
Amount Authorized by Voters	<u>\$ 168,000,000</u>	<u>\$ 14,000,000</u>		
Amount Issued	<u>(11,625,000)</u>			
Remaining To Be Issued	<u>\$ 156,375,000</u>	<u>\$ 14,000,000</u>		

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of May 31, 2018: \$ 973,110

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 647,754

See accompanying auditors' report.

Bond Issue

Series 2016	Series 2017	Series 2017R	Total
2.0% - 3.625%	3.0% - 5.50%	2.0% - 4.0%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
9/1/18 -	9/1/19 -	9/1/18 -	
9/1/46	9/1/46	9/1/38	
\$ 1,700,000	\$ -	\$ -	\$ 8,510,000
			(2,750,000)
	2,730,000	2,850,000	5,580,000
			(120,000)
<u>\$ 1,700,000</u>	<u>\$ 2,730,000</u>	<u>\$ 2,850,000</u>	<u>\$ 11,220,000</u>
<u>\$ 58,000</u>	<u>\$ 59,026</u>	<u>\$ 35,800</u>	<u>\$ 386,615</u>

***Northeast Harris County Municipal Utility District No. 1***  
***TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund***  
***For the Last Five Fiscal Years***

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Water service	\$ 245,768	\$ 221,337	\$ 189,345	\$ 158,397	\$ 137,370
Sewer service	334,234	290,816	256,352	211,454	175,458
Property taxes	876,201	732,238	544,012	441,277	378,949
Penalties and interest	13,873	16,745	12,686	13,891	10,876
Tap connection and inspection	115,692	80,182	82,607	79,672	61,527
Miscellaneous	1,455	1,449	701	180	
Investment earnings	9,254	2,258	635	108	41
Total Revenues	<u>1,596,477</u>	<u>1,345,025</u>	<u>1,086,338</u>	<u>904,979</u>	<u>764,221</u>
Expenditures					
Current service operations					
Purchased services	423,119	303,827	287,974	248,171	198,865
Professional fees	149,772	153,389	149,854	97,660	196,550
Contracted services	257,332	221,284	172,175	168,451	132,705
Repairs and maintenance	373,248	299,475	299,418	206,113	165,098
Utilities	12,101	12,676	15,875	18,414	18,432
Wastewater treatment plant lease				38,700	77,400
Administrative	40,406	41,083	33,633	29,542	24,830
Other	11,506	16,400	10,519	9,424	8,933
Total Expenditures	<u>1,267,484</u>	<u>1,048,134</u>	<u>969,448</u>	<u>816,475</u>	<u>822,813</u>
Revenues Over/(Under) Expenditures	<u>\$ 328,993</u>	<u>\$ 296,891</u>	<u>\$ 116,890</u>	<u>\$ 88,504</u>	<u>\$ (58,592)</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
15%	17%	17%	18%	18%
21%	22%	24%	23%	23%
55%	54%	50%	49%	50%
1%	1%	1%	1%	1%
7%	6%	8%	9%	8%
*	*	*	*	
1%	*	*	*	*
100%	100%	100%	100%	100%
27%	23%	27%	27%	26%
9%	11%	14%	11%	26%
16%	16%	16%	19%	17%
23%	22%	28%	23%	22%
1%	1%	1%	2%	2%
			4%	10%
3%	3%	3%	3%	3%
1%	1%	1%	1%	1%
80%	77%	90%	90%	107%
20%	23%	10%	10%	(7%)

***Northeast Harris County Municipal Utility District No. 1  
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund  
For the Last Five Fiscal Years***

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 711,653	\$ 574,211	\$ 487,763	\$ 375,123	\$ 321,802
Penalties and interest	10,423	7,825	4,749	4,715	2,657
Accrued interest on bonds sold		4,672	2,325	1,984	
Investment earnings	9,159	3,069	954	152	105
Total Revenues	<u>731,235</u>	<u>589,777</u>	<u>495,791</u>	<u>381,974</u>	<u>324,564</u>
Expenditures					
Tax collection services	26,741	22,523	18,872	15,526	14,854
Debt service					
Principal	120,000	65,000	60,000	60,000	55,000
Interest and fees	397,153	360,646	264,005	230,215	164,561
Debt issuance costs	161,794				
Total Expenditures	<u>705,688</u>	<u>448,169</u>	<u>342,877</u>	<u>305,741</u>	<u>234,415</u>
Revenues Over Expenditures	<u>\$ 25,547</u>	<u>\$ 141,608</u>	<u>\$ 152,914</u>	<u>\$ 76,233</u>	<u>\$ 90,149</u>
Total Active Retail Water Connections	<u>731</u>	<u>620</u>	<u>536</u>	<u>441</u>	<u>395</u>
Total Active Retail Wastewater Connections	<u>727</u>	<u>617</u>	<u>536</u>	<u>439</u>	<u>393</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
97%	97%	99%	98%	99%
1%	1%	1%	1%	1%
	1%	*	1%	
1%	1%	*	*	*
99%	100%	100%	100%	100%
4%	4%	4%	4%	5%
16%	11%	12%	16%	17%
54%	61%	53%	60%	51%
22%				
96%	76%	69%	80%	73%
3%	24%	31%	20%	27%

***Northeast Harris County Municipal Utility District No. 1  
TSI-8. Board Members, Key Personnel and Consultants  
For the Year Ended May 31, 2018***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600 Houston, TX 77027  
 District Business Telephone Number: (713) 860-6400  
 Submission Date of the most recent District Registration Form  
 (TWC Sections 36.054 and 49.054): May 7, 2018  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Jim Moffatt	5/18 - 5/22	\$ 1,650	\$ 95	President
Keith Jaehne	5/18 - 5/22	1,350	117	Vice President
Ellen Crocker	5/18 - 5/22	1,650	213	Secretary
Nicole Hill	5/16 - 5/20	1,650	438	Assistant Secretary
Tonya Nunez	5/16 - 5/20	1,800	424	Assistant Vice President
<b>Consultants</b>				
Allen Boone Humphries Robinson, LLP	2007	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 83,806		
<i>Bond counsel</i>		139,945		
Municipal Operations & Consulting, Inc.	2016	76,488		Operator
McLennan & Associates, LP	2007	30,000		Bookkeeper
Bob Leared Interests, Inc.	2008	10,059		Tax Collector
Harris County Appraisal District	Legislation	11,240		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2010	2,852		Delinquent Tax Attorney
IDS Engineering Group	2007	182,856		Engineer
McGrath & Co., PLLC	Annual	10,500		Auditor
Rathmann & Associates, L.P.	2008	109,305		Financial Advisor

\* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.  
 See accompanying auditors' report.



## SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100



