

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

The District designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 41422M

RATINGS: Underlying "BBB-" (stable outlook) S&P / Insured "AA" S&P
See "BOND INSURANCE" and "MUNICIPAL BOND RATINGS" herein

\$3,180,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT No. 460
(A political subdivision of the State of Texas, located in Harris County, Texas)
UNLIMITED TAX BONDS

SERIES 2019

Dated: January 1, 2019

Due: April 1 (as shown below)

Interest on the Bonds (the "Bonds" or the "Series 2019 Bonds") will accrue from January 1, 2019, and will be payable on October 1 and April 1 of each year, commencing October 1, 2019. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") 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 owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar 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 "BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. See "THE BONDS."

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 **BUILD AMERICA MUTUAL ASSURANCE COMPANY.**



MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>
\$55,000	2021	5.500%	2.20%	\$100,000	2028 (b)	3.000%	3.30%
\$75,000	2022	5.500%	2.40%	\$100,000	2029 (b)	3.125%	3.45%
\$75,000	2023	5.500%	2.55%	\$100,000	2030 (b)	3.250%	3.60%
\$75,000	2024 (b)	5.250%	2.56%	\$125,000	2031 (b)	3.500%	3.70%
\$75,000	2025 (b)	5.000%	2.58%	\$125,000	2032 (b)	3.500%	3.80%
\$100,000	2026 (b)	3.000%	3.00%	\$125,000	2033 (b)	3.750%	3.90%
\$100,000	2027 (b)	3.000%	3.15%	\$125,000	2034 (b)	3.750%	3.95%

\$725,000 3.75% Term Bond Due April 1, 2039 to Yield 4.00% (a) (b) (c)

\$350,000 4.00% Term Bond Due April 1, 2041 to Yield 4.01% (a) (b) (c)

\$350,000 4.00% Term Bond Due April 1, 2043 to Yield 4.02% (a) (b) (c)

\$400,000 4.00% Term Bond Due April 1, 2045 to Yield 4.03% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2024, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on April 1, 2023, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds within any one maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See "THE BONDS—Optional Redemption."
- (c) Subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Mandatory Redemption."

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 460 (the "District") to: (1) reimburse certain developers for advancing funds to construct certain water, sewer, and drainage facilities serving various sections of the District; (2) fund the District's share of certain detention pond costs; (3) fund nine months of capitalized interest; (4) reimburse certain developers for developer interest related to the advancement of funds for certain land and construction costs; and (5) pay costs of issuance related to the sale of the Bonds. See "USE OF BOND PROCEEDS." The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of and Security for Payment." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain investment considerations described under the caption "RISK FACTORS."**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn, LLP, Houston, Texas, Bond Counsel. Certain other matters will be passed upon on behalf of the District by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about January 10, 2019.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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 their Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds. See "OFFICIAL STATEMENT – Updating of Official Statement."

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Exhibit C - Specimen 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 producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets (the "Underwriter") to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.028137% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial number of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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 PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the

Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "DISTRICT DEBT," "DISTRICT TAX DATA," and "APPENDIX A" (Audited Financial Statements of the District) of this Official Statement. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019. The District will provide the updated information to the MSRB.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements if the District 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, the District will 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 Order 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 June 30. Accordingly, it must provide updated information by December 31 in each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax 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 Rule15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule15c2-12, 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 Order makes any provision for debt service reserves, liquidity enhancement, the pledge of property (other than ad valorem tax revenues) to secure payment of the Bonds, or appointment of a trustee. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing updated information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement although holders and 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 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 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 described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent 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 beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid but, in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. 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 aspects with its previous Continuing Disclosure agreements in accordance with SEC Rule 15c2-12.

MUNICIPAL BOND RATING

Standard & Poor's Rating Group ("S&P") will assign its municipal bond rating of "AA" (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. S&P has assigned an underlying rating of "BBB-" (stable outlook) to the Bonds. See "BOND INSURANCE," "RISK FACTORS – Bond Insurance Risk Factors," and "APPENDIX C."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") 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 an exhibit 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above

rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$524 million, \$104.1 million and \$419.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and 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

- Description:** The Unlimited Tax Bonds, Series 2019 (the "Bonds"), are dated January 1, 2019. The Bonds represent the fourth series of new money bonds to be issued by Harris County Municipal Utility District No. 460 (the "District"). Additionally, the District has issued one series of refunding bonds (the Series 2018A Refunding Bonds). The Bonds mature on April 1 in the years as shown in the table on the cover page of this Official Statement. See "THE BONDS."
- Redemption Provisions:** The Bonds maturing on or after April 1, 2024 are subject to redemption at the option of the District, prior to maturity, in whole or part, on April 1, 2023, or on 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. The Bonds maturing on April 1, 2039, 2041, 2043, and 2045 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning in the years 2035, 2040, 2042, and 2044 respectively. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing direct annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston (the "City"), or any other political subdivision or agency. See "THE BONDS - Source of and Security for Payment."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC 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 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 "BOOK-ENTRY-ONLY SYSTEM."
- Use of Proceeds:** Proceeds from the sale of the Bonds will be used to: (1) reimburse certain developers for advancing funds to construct certain water, sewer, and drainage facilities serving various sections of the District; (2) fund the District's share of certain detention pond costs; (3) fund nine months of capitalized interest; (4) reimburse certain developers for developer interest related to the advancement of funds for certain land and construction costs; and (5) pay costs of issuance related to the sale of the Bonds. See "USE OF BOND PROCEEDS."
- Legal Opinion:** Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Payment Record:** The District has never defaulted in the payment of principal or interest on any of its outstanding bonds.
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "RISK FACTORS" and "LEGAL MATTERS."
- Qualified Tax Exempt Obligations:** The District designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986 and the District represents that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2019 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
- Municipal Bond Rating:** In connection with the sale of the Bonds, the District made a formal application for a rating with S&P. S&P has assigned a rating of "BBB-" (stable outlook) on the Bonds based on underlying credit without bond insurance. See "MUNICIPAL BOND RATING."

Municipal Bond Insurance:

S&P is expected to assign its municipal bond rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See “MUNICIPAL BOND RATING” and “BOND INSURANCE.”

THE DISTRICT

Description:

The District is a municipal utility district created by an act of the 79th Texas Legislature effective May 24, 2005. The District is subject to the jurisdiction of the Texas Commission on Environmental Quality (“TCEQ”). The District was created pursuant to the authority of Chapters 49 and 54, Texas Water Code, as amended, and Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District is located entirely within Harris County, Texas, and within the corporate boundaries of the City. The District lies 8 miles south of the Houston central business district and is approximately ½ mile north and approximately ½ mile east of the intersection of the Sam Houston Toll Road and Wayside. See “THE DISTRICT.”

Development of the District:

The District, as it was originally created, included approximately 129 acres. Since the District’s creation, there have been three annexations. The District now includes approximately 591 acres. As of November 1, 2018, land development in the District has been completed in approximately 143 acres; approximately 63 acres are presently under development; and approximately 292 acres in the District remain to be developed. The District currently has approximately 93 undevelopable acres (including drainage/detention easements, rights-of-way, and plant sites). In the aggregate as of November 1, 2018, development in the District included 786 completed homes, no homes under construction, no vacant developed lots, and 405 lots in the process of being developed. See “THE DISTRICT – Status of Land Development/Land Uses in the District” and “APPENDIX B – PHOTOGRAPHS TAKEN IN THE DISTRICT.”

The System:

The District’s water, sewer, and drainage system is complete in Southridge Crossing, Sections 1 – 7, El Tesoro, Section 1, Almeda Crossing, and Almeda Trace, Sections 1 – 2. The District residents receive water supply and wastewater treatment services directly from the City. The District does not own or operate its own water supply or wastewater treatment plant facility. The District has entered into a Utility Functions and Services Allocation Agreement (the “Utility Agreement”) with the City. The Utility Agreement provides for, and includes, the terms and conditions whereby the land within the District will be served by the City’s water and sewer system. See “THE SYSTEM” and “UTILITY FUNCTIONS AND SERVICES ALLOCATION AGREEMENT WITH THE CITY OF HOUSTON.”

Utility Agreement:

The District entered into the Utility Agreement with the City, which the Utility Agreement does not cover the detention facilities to be owned by the District. The District is responsible for maintenance of such detention facilities. The Utility Agreement includes, among other things, the terms and conditions regarding the District’s creation and how the land within in the District will be served by the City’s water and sewer system.

The Utility Agreement: (i) describes how the system servicing the District will be constructed; (ii) provides that upon completion and acquisition of the system by the District, that the District will convey the system to the City for operation and maintenance; and (iii) provides that all revenues derived from water and sewer utilities serving the District are revenues of and belong to the City. If additional water and sewer facilities are constructed to serve the District in the undeveloped areas of the District, then such facilities will be transferred to the City in accordance with the Utility Agreement.

The Utility Agreement also requires the City to rebate to the District amounts established by the Utility Agreement to avoid double taxation to District residents for water, sewer, and drainage facilities that serve the land within the District, and to compensate the District for certain capital costs that the District has incurred to extend water and sewer facilities.

The Utility Agreement also provides for the terms of the dissolution of the District by the City and the assumption of the District’s obligations (including bonds outstanding) by the City upon dissolution. See “UTILITY FUNCTIONS AND ALLOCATIONS AGREEMENT WITH THE CITY OF HOUSTON.”

The Developers:

The current developers in the District presently include GARC Enterprises, Ltd. (“GARC”), Pulte Homes of Texas (“Pulte”), Peluda, L.P. (“Peluda”), a special purpose entity created and wholly owned by UDF Funding L.P. (“UDF”), a special purpose entity created and wholly owned by Colina Homes (“Colina”), and Camillo Properties (“Camillo”). The developers in the District are collectively referred to herein as the “Developers.”

GARC was one of the original developers in approximately 129 acres of land located in the District. GARC developed approximately 51 acres known as Southridge Crossing, Sections 1 and 2, containing 210 lots. In 2014, GARC sold its remaining vacant developed lots and acreage to Pulte. Since that time, Pulte has built out the lots in Southridge Crossing, Sections 1-7, which includes approximately 534 homes.

El Tesoro (one of the original developers in the District) developed approximately 14.6 acres known as El Tesoro, Section 1, which consists of 81 lots. Of those 81 lots, 75 lots were sold to Camillo and the remaining 6 lots were sold to Woodcreek Builders ("Woodcreek"). All of the 81 lots have been built-out. Substantially all of such homes are rented to tenants who have annual rental agreements with rents averaging \$1,250 to \$1,450 per month.

Peluda is in the process of developing 30 acres of land in El Tesoro, Sections 2-3, which are collectively expected to contain approximately 217 lots. Such lots are presently anticipated to be available for home building during the first and second quarters of 2019. Lot sale contracts are in place for all of the 217 lots in El Tesoro, Sections 2-3 with LGI Homes; such lots will be purchased by LGI Homes from Peluda upon substantial completion. Peluda owns an additional 119 acres in the District. While no definitive development plans exist at this time, Peluda plans to develop the remaining 119 acres for single-family residential purposes at some time in the future.

Almeda Crossing FL-1, L.P. ("Almeda") is a special purpose entity set up by UDF for the purpose of developing approximately 8 acres in the District known as Almeda Crossing. Almeda has completed the development work in Almeda Crossing, which includes 58 lots and all of the lots have been built-out. Homes in this section were constructed by Colina Homes and marketed in the \$155,000 - \$195,000 price range.

Lexington 26, L.P. ("Lexington") is a special purpose entity established by Colina for the purpose of developing approximately 61 acres in the District known as South Meadows Place. Colina has contracted with UDF to act as the fee developer for the development of the lots in South Meadows Place. According to Colina, certain pre-development work has been completed, including all of the design work for South Meadows Place, Section 1, which represents 13 acres and 93 lots. The 93 lots in South Meadows Place, Section 1 are currently under development; such lots are anticipated to be available for home building during the first quarter of 2019. The homes in South Meadows Place, Section 1, will be constructed by Colina Homes and are anticipated to be marketed in the \$180,000 - \$220,000 price range. South Meadows Place includes an additional 44 acres that may someday be developed into approximately 236 single family lots. No definitive development plans are in place for the development of such acreage in South Meadows Place at this time.

Camillo was the developer of the Almeda Trace subdivision. The Almeda Trace subdivision consists of two sections totaling approximately 16 acres and is subdivided into 113 lots. The land development work in both sections was completed during calendar year 2016 and all of the homes were constructed and ready for occupancy by July, 2017. The homes in Almeda Trace were constructed by Camillo. The homes are part of a rental home community and each home is appearing on the tax roll at approximately \$150,000 per HCAD. All of such homes are rented to tenants who have annual rental agreements with rents averaging \$1,400 per month.

Pulte is currently in the initial phases of land development work on approximately 19 acres known as Forbes Crossing, Section 1. According to a representative of Pulte, the 95 lots in Forbes Crossing, Section 1 are presently anticipated to be available for home building during the second quarter of 2019. Forbes Crossing includes an additional 80 acres that may someday be developed into approximately 418 single family lots. No definitive development plans are in place for the additional 80 acres in Forbes Crossing at this time.

**Homebuilders
in the District:**

Current and previous homebuilders in the District include Pulte Homes, Colina Homes, Camillo Properties, Carlisle Homes, Hampton Homes, Banway Homes, GeenEco Builders, and Woodcreek Builders. LGI Homes is expected to commence its home building program during the first quarter of 2019.

SELECTED FINANCIAL INFORMATION
(Unaudited)

10/1/2018 Estimated Taxable Value	\$138,956,629	(a)
2018 Taxable Value	\$121,480,285	(b)
Direct Debt		
Outstanding Bonds	\$7,665,000	
The Bonds	<u>\$3,180,000</u>	
Total Direct Debt	\$10,845,000	
Estimated Overlapping Debt	<u>\$5,257,585</u>	
Direct and Estimated Overlapping Debt	\$16,102,585	
Percentage of Direct Debt to:		
10/1/2018 Estimated Taxable Value	7.80%	
2018 Taxable Value	8.93%	
See "DISTRICT DEBT"		
Percentage of Direct and Estimated Overlapping Debt to:		
10/1/2018 Estimated Taxable Value	11.59%	
2018 Taxable Value	13.26%	
See "DISTRICT DEBT"		
2018 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.33	
Road Debt Service Tax	\$0.09	
Maintenance Tax	<u>\$0.32</u>	
Total 2018 Tax Rate	\$0.74	
Cash and Temporary Investment Balances as of November 13, 2018		
General Fund	\$200,644	
Debt Service Fund	\$551,552	(c) (d)
Road Debt Service Fund	\$134,733	(d)

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- (a) The Estimated Taxable Value as of 10/1/2018 was prepared by the Harris County Appraisal District ("HCAD") and provided to the District for informational purposes only. The estimated value is not binding on HCAD and the value resulting from home building and construction in the District since January 1, 2018, will not be included on the District's tax roll until the January 1, 2019, certified tax roll is prepared during the second half of 2019. The District is authorized by law to only levy taxes against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 2018 Certified Taxable Value according to data supplied to the District by HCAD. See "TAX DATA" and "TAX PROCEDURES."
- (c) Includes nine months of capitalized interest on the Bonds, which will be deposited into the District's Debt Service Fund on the date of delivery of the Bonds.
- (d) Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund or the Road Debt Service Fund. The cash and investment balances in the Road Debt Service Fund are not available to make debt service payments on the Bonds. See "DISTRICT TAX DATA - Adequacy of Tax Revenue."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the District's outstanding bonds (including debt service on outstanding road bonds) and the debt service requirements for the Bonds.

Year	Existing Debt Service Requirements	Debt Service on the Series 2019 Bonds		Total Debt Service Requirements
		Principal	Interest	
2019	\$390,787		\$92,737	\$483,524
2020	\$392,399		\$123,650	\$516,049
2021	\$490,987	\$55,000	\$122,137	\$668,124
2022	\$486,549	\$75,000	\$118,562	\$680,111
2023	\$471,987	\$75,000	\$114,437	\$661,424
2024	\$467,362	\$75,000	\$110,406	\$652,768
2025	\$462,556	\$75,000	\$106,562	\$644,118
2026	\$453,212	\$100,000	\$103,187	\$656,399
2027	\$499,137	\$100,000	\$100,187	\$699,324
2028	\$494,640	\$100,000	\$97,187	\$691,827
2029	\$489,899	\$100,000	\$94,125	\$684,024
2030	\$484,962	\$100,000	\$90,937	\$675,899
2031	\$474,784	\$125,000	\$87,125	\$686,909
2032	\$493,913	\$125,000	\$82,750	\$701,663
2033	\$487,243	\$125,000	\$78,218	\$690,461
2034	\$504,725	\$125,000	\$73,531	\$703,256
2035	\$521,137	\$125,000	\$68,843	\$714,980
2036	\$511,893	\$150,000	\$63,687	\$725,580
2037	\$502,397	\$150,000	\$58,062	\$710,459
2038	\$487,815	\$150,000	\$52,437	\$690,252
2039	\$355,150	\$150,000	\$46,812	\$551,962
2040	\$368,900	\$175,000	\$40,500	\$584,400
2041	\$381,728	\$175,000	\$33,500	\$590,228
2042	\$369,134	\$175,000	\$26,500	\$570,634
2043	<u>\$366,418</u>	\$175,000	\$19,500	\$560,918
2044		\$200,000	\$12,000	\$212,000
2045		<u>\$200,000</u>	<u>\$4,000</u>	<u>\$204,000</u>
	\$11,409,714	\$3,180,000	\$2,021,579	\$16,611,293

Maximum Annual Debt Service Requirements (2036).....\$725,580

\$0.55 Tax Rate on the 10/1/2018 Estimated Taxable Value of \$138,956,629
 @ 95% collections produces.....\$726,048

\$0.63 Tax Rate on the 2018 Taxable Value of \$121,480,285
 @ 95% collections produces.....\$727,060

OFFICIAL STATEMENT

relating to

\$3,180,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT No. 460

(A political subdivision of the State of Texas located within Harris County, Texas)

UNLIMITED TAX BONDS

SERIES 2019

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$3,180,000 Harris County Municipal Utility District No. 460 Unlimited Tax Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended, to an order (the "Bond Order") adopted by the Board of Directors of Harris County Municipal Utility District No. 460 (the "District"), to an order of the Texas Commission on Environmental Quality ("TCEQ"), and to an election held within the District.

This Official Statement includes descriptions of the Bonds, the Bond Order, certain information about the District, the District's financial condition, and the developers in the District. 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 Bond Counsel upon payment of duplication costs thereof.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston (the "City"), or any other political subdivision, are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners or that there will be a market for such property.

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 trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the spread between the bid and asked price of more traditional issuers, as such bonds are generally bought, sold or traded in the secondary market.

Tax Collections

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 state and local taxing authorities on the property against which taxes are levied, and such lien may be impaired by: (a) repetitive, annual, expensive collection procedures; (b) a federal bankruptcy court's stay of tax collection procedures; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such 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. See "TAXING PROCEDURES – District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies

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

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. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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, the District must obtain the approval of the Texas Commission on Environmental Quality ("TCEQ") prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if 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.

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

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

A district cannot be placed into bankruptcy involuntarily.

Approval of the Bonds

As required by law, the Attorney General of Texas must approve the legality of the Bonds prior to delivery. The Attorney General of the state of Texas does not pass upon or guarantee the safety of the Bonds as an investment. Furthermore, the Attorney General of the State of Texas does not pass upon the adequacy or the accuracy of the information contained in this Official Statement.

Economic Factors

The continued growth and maintenance of taxable values in the District is directly related to the housing and building industry. The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions including the relative price of oil and natural gas. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for new homes, hence reducing demand by homebuilders for lots within the District. Any commercial building in the District could also be adversely affected by such economic developments.

Interest rates and the availability of mortgage and development funds have a direct impact on construction activity, particularly the short-term interest rates, at which developers and builders are able to obtain financing for development or building costs. Interest rate levels may affect the developers' or builders' ability to complete development or building plans. Long-term interest rates can affect home purchasers' ability to qualify for and afford the total financing costs of a new home. The continuation of long-term interest rates at higher levels may negatively affect home sales and the rate of growth of taxable values in the District.

The maintenance of values in El Tesoro, Section 1, comprised of 81 homes, substantially all of which are currently held for rental and Almeda Trace, Sections 1 – 2, comprised of 113 homes currently held for rental, may be particularly affected by the availability of apartment or other rental properties and the overall health of the Houston economy.

The Houston metropolitan area has, in the past, experienced increased unemployment, business failures and slow absorption of office space. These factors, if they recur, could affect the demand for new residential home construction and commercial development and hence the growth of property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values or, in some instances, cause builders to abandon home-building plans altogether.

The housing industry in the Houston area is competitive and the District can give no assurance that current building programs will be completed. The competitive position of the developer in the sale of its developed lots or, respectively, that of present and prospective builders in the construction of single-family residential houses is affected by most of the factors discussed herein. Such a competitive position is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

Alternative sites are available for the construction of single-family residential improvements and commercial development within the market area in which the District is located. Such sites could pose competition to the continued home-building development and commercial development on comparable sites within the District.

Dependence on Future Development and Potential Impact on District Tax Rates

The District's combined 2018 debt service tax rate and road debt service tax rate is \$0.42 per \$100 of assessed valuation.

Assuming no further construction of residential, or commercial projects within the District other than those that have been constructed, the value of such land and improvements within the District could be a major determinant of the ability of the District to collect and the willingness of property owners to pay ad valorem taxes levied by the District.

After issuance of the Bonds, the District's Maximum Annual Debt Service Requirements will be \$725,580. The 10/1/2018 Estimated Taxable Valuation of property within the District is \$138,956,629. Assuming no increase or decrease in the 10/1/2018 Estimated Taxable Valuation and no use of other District funds, a combined debt service tax rate and road debt service tax rate of \$0.55 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. The 2018 Taxable Valuation of property within the District is \$121,480,285. Assuming no increase or decrease in the 2018 Taxable Valuation and no use of other District funds, a combined debt service tax rate and road debt service tax rate of \$0.63 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. See "DISTRICT TAX DATA – Adequacy of Tax Revenue."

Landowners/Developer Under No Obligation to the District

The developers have informed the District of its current plans to continue to develop land in the District for residential purposes. However, neither the developers nor any other landowner within the District has any commitments or obligations to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Currently, there is no restriction on any landowner's right (including the developers) to sell its land. Failure to construct taxable improvements on developed lots (currently existing or anticipated to be created by the developers) or own commercial tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District as it has in the past. The District is also dependent upon certain principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such conditions may have on their ability to pay taxes. See "DISTRICT TAX DATA – Principal Taxpayers."

Future Debt

The District's voters have authorized the issuance of a total of \$77,000,000 of unlimited tax bonds for the purposes of providing water, sewer, and drainage facilities, \$48,000,000 of unlimited tax bonds for the purposes of providing road facilities, and \$7,000,000 of unlimited tax bonds for the purposes of providing recreational facilities and additions thereto, and the District could authorize additional amounts in the future. The District has \$68,095,000 of unlimited tax bonds for water, sewer and drainage facilities, \$45,940,000 of road bonds, and \$7,000,000 of unlimited tax bonds for recreational facilities that will remain authorized, but unissued, after the issuance of the Bonds. The District has the right to issue additional new money bonds as may hereafter be approved by both the Board and the voters of the District and may issue refunding bonds without additional elections so long as they do not exceed the principal amount of then outstanding bonds. Any future new money bonds, other than road bonds, to be issued by the District must also be approved by the TCEQ. Such additional new money bonds or refunding bonds would be issued on a parity with the Bonds.

The District has no plans to issue any additional new money bonds at this time. Generally, the Board of Directors has indicated that new money bonds will be issued in amounts and in timeframes depending upon: (i) the rate of growth of taxable improvements in the District, and (ii) the District's ability to keep the total tax rate at approximately \$0.74.

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project 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 has authorized \$7,000,000 of park bonds at an election held on May 13, 2006.

The current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

Continuing Compliance with Certain Covenants

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

Environmental and Air Quality 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/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the 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—was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 "eight-hour" ozone standards ("the 1997 Ozone Standards"). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas's re-designation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGC area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion (“ppb”) to 75 ppb (“the 2008 Ozone Standard”), and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area’s 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion to 70 ppb (“the 2015 Ozone Standard”). On August 3, 2016, the TCEQ recommended to the EPA that all counties designated as nonattainment for the 2008 Ozone Standard be designated nonattainment for the 2015 Ozone Standard as well, which will impose additional ozone-reduction obligations on the HGB area. This could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration. The EPA intends to release the final 2015 Ozone Standard attainment designations by October 1, 2018. In order to comply with the EPA’s ozone standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) 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. It is possible that additional controls will be necessary to allow the HGB area to reach attainment 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) on February 8, 2018. The TPDES Construction General Permit became effective on March 5, 2018, and 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 must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit (“Sixth Circuit”) put the CWR on hold nationwide. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR and reinstating language in place before 2015 changes which broadened the EPA’s jurisdiction. The proposed rule was published in the Federal Register on July 27, 2017, and the comment period ended on September 28, 2017. If the CWR is not rescinded, 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 jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

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.

Changes in Tax Legislation

Certain tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, and 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.

The Tax Cuts and Jobs Act, which became law on December 22, 2017, repealed the provisions allowing for tax-exempt advance refundings, prohibiting any tax-exempt advance refunding bonds from being issued after December 31, 2017.

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 applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier date.

Default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond 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 Bond 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 Bond Insurer and its claim paying ability. The Bond 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 Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of "BOND INSURANCE" herein.

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

Neither the Issuer nor the Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas gulf coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the District's engineer, the District's System did not sustain any significant damage from Hurricane Harvey and there was no interruption of water and sewer service provided by the City during or after the storm. According to the District's Developers, no homes within the District experienced flooding or other significant damage.

Inclement Weather

The District is located approximately 60 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to 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 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 would be adversely affected.

Harris County and City of Houston Floodplain Regulations

As a direct result of Hurricane Harvey, Harris County and the City of Houston adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harris County regulations took effect on January 1, 2018, and the new and amended City of Houston regulations took effect on September 1, 2018.

The Harris County floodplain regulations govern construction projects in unincorporated Harris County and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally, the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation.

The City of Houston floodplain regulations govern construction projects in the corporate jurisdiction of the City of Houston and include regulations governing the elevation of structures in the 100-year and 500-year floodplains and the elevation of residential additions greater than one-third the footprint of the existing structure and non-residential additions. Additionally, the City of Houston regulations require an improved structure whose new market value exceeds 50% of the market value of the structure prior to the start of improvements meet the new and amended City of Houston regulations.

The new and amended Harris County and City of Houston regulations may have a negative impact on new development in and around the District as well as on the rehabilitation of existing homes impacted by flooding or other natural disasters.

USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to: (1) reimburse certain developers for advancing funds to construct certain water, sewer, and drainage facilities serving various sections of the District; (2) fund the District's share of certain detention pond costs; (3) fund nine months of capitalized interest; (4) reimburse certain developers for developer interest related to the advancement of funds for certain land and construction costs; and (5) pay costs of issuance related to the sale of the Bonds.

The Engineer has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds as approved by the TCEQ is as follows:

CONSTRUCTION RELATED COSTS:	Total Amount (a)
Developer Contribution Items	
South Ridge Crossing, Detention Pond Phase 6	\$129,400
Almeda Crossing – Clearing and Grubbing	\$32,271
Almeda Crossing – W, WW, & D	\$279,736
Almeda Trace, Section 1 – W, WW, & D Appraisal	\$659,485
Almeda Trace, Section 1 – W, WW, & D Phase 2	\$255,648
Almeda Trace, Section 2 – W, WW, & D	\$64,926
Engineering and Materials Testing	\$166,509
Storm Water Pollution Prevention	\$3,312
Special Engineering Report	<u>\$75,997</u>
TOTAL DEVELOPER CONTRIBUTION ITEMS	\$1,667,284
District Items	
South Ridge Crossing Detention Pond – Land Acquisition	\$790,857
Almeda Crossing Detention Pond – Land Acquisition	\$53,671
Almeda Trace Detention Pond – Land Acquisition	<u>\$109,355</u>
TOTAL DISTRICT ITEMS	\$953,883
TOTAL CONSTRUCTION RELATED COSTS	\$2,621,167
NON-CONSTRUCTION COSTS:	
Legal Fees	\$88,600
Financial Advisor Fees	\$63,600
Capitalized Interest	\$92,737
Developer Interest	\$124,250
Bond Discount	\$95,400
Bond Issuance Expenses	\$28,528
Bond Application Report Costs	\$40,000
Attorney General Fee	\$3,180
TCEQ Bond Issuance Fee	\$7,950
Contingency	<u>\$14,588</u> (b)
TOTAL NON-CONSTRUCTION COSTS	\$558,833
TOTAL BOND ISSUE REQUIREMENT	\$3,180,000

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. The District has requested a waiver of such rules and such waiver has been granted by the TCEQ.

(b) The TCEQ Order requires that the District designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the rate initially projected in the District's Bond Application to the TCEQ as a contingency line item. Such funds may be used by the District only in compliance with TCEQ rules.

UTILITY FUNCTIONS AND SERVICES ALLOCATION AGREEMENT WITH THE CITY OF HOUSTON

The District operates pursuant to a Utility Functions and Services Allocation Agreement (the "Utility Agreement") between the City and the District. Pursuant to the Utility Agreement: (1) the City consented to the creation of the District within the city limits of the City; (2) the District assumes responsibility for acquiring and constructing for the benefit of, and for the ultimate conveyance to the City: (a) the water distribution, (b) wastewater collection, and (c) drainage facilities to serve development occurring within the boundaries of the District (the "Facilities"); and (3) the City agreed to accept the Facilities for operation and maintenance in consideration for the District's financing, acquisition and construction of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City.

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the City's requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without capital charges of any kind.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities. Before the District is authorized to issue bonds, the District must provide the City with a copy of the TCEQ order authorizing issuance of the bonds. Such order must provide that, under the TCEQ's rules governing the issuance of bonds, it is feasible to sell the bonds. The Utility Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount.

The Utility Agreement also requires the City to rebate to the District amounts established by the Utility Agreement to avoid double taxation to District residents for water, sewer, and drainage facilities that serve the land within the District, and to compensate the District for certain capital costs that the District has incurred to extend water and sewer facilities.

The Utility Agreement also provides that the City, as provided by the laws of the State of Texas and the City's ordinance consenting to the creation of the District, has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations (including bonds outstanding) and will remain in effect until the earlier of 50 years or the dissolution of the District by the City.

THE SYSTEM

Regulation

According to the District's engineer, LJA Engineering, Inc. ("Engineer"), the District's water distribution, wastewater collection, and drainage facilities (the "System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, and the City. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies and the construction of all such facilities has been inspected by the City.

Operation of the District's waterworks and sewage treatment facilities is provided by the City, and is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Water System

Pursuant to the Utility Agreement, water supply for the District customers is provided by the City. The District's source of water is surface water and groundwater owned and operated by the City. Treated potable water is delivered to the District through a network of water distribution lines owned and maintained by the City. The City has previously issued water supply commitments (in the Utility Agreement) to provide 2,011 ESFC's to the developments within the District. The City's water supply system that serves the District is sufficient to serve the buildout of the District given currently anticipated development plans.

Wastewater System

Pursuant to the Utility Agreement, the City has agreed to provide capacity for the ultimate wastewater discharge of the District. Wastewater treatment for the District customers is currently provided by the City's Chocolate Bayou Wastewater Treatment Plant. The City has previously issued wastewater capacity commitments (in the Utility Agreement) to provide 2,011 ESFC's to the developments within the District. The City's wastewater system that serves the District has sufficient capacity to serve the buildout of the District given currently anticipated development plans.

Drainage System

The underground storm sewer facilities are complete and serving all of the developed sections noted in this official statement. See “THE DISTRICT – Current Status of Residential Development.” Additionally, the District’s drainage system currently includes collection systems, detention facilities, and drainage channels that carry water to Sims Bayou or detention facilities and drainage channels that outfall directly into Clear Creek.

THE DISTRICT

Authority

The District is a municipal utility district created on May 24, 2005, by an act of the 79th Legislature, Regular Session Senate Bill 1884 (codified at Texas Special District Local Laws Code Ann. § 8124), in accordance with Article XVI, Section 59 and Article III, section 52 of the Texas Constitution of the State of Texas and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended, and confirmed at an election held on May 13, 2006. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, and facilities necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District has certain road powers and under certain limited circumstances the District also is authorized to construct, develop, and maintain park and recreational facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent of the City, within whose corporate limits the District lies, the District has agreed to observe certain City requirements. These requirements limit the purposes for which the District may sell bonds for the acquisition and improvement of waterworks, wastewater, and drainage facilities; limit the net effective interest rate on such bonds and other terms of such bonds; and require approval by the City of the District’s construction plans and specifications.

Description and Location

The District, as it was originally created, included approximately 129 acres. Subsequent annexations have resulted in the District’s current size of approximately 591 acres. The District is located within the corporate limits of the City. The District lies approximately 8 miles south of the Houston central business district and is approximately ½ mile north and approximately ½ mile east of the intersection of the Sam Houston Toll Road and Wayside.

Status of Land Development/Land Uses in the District

A summary of the approximate land use in the District as of November 1, 2019, appears in the table below:

<u>Type of Land Use</u>	<u>Approximate Acres</u>	
Fully developed acres	143	(a)
Acres that are presently under development	63	(b)
Remaining developable acres	292	
Undevelopable acres	<u>93</u>	(c)
Total approximate acres	591	

-
- (a) Represents acreage in Southridge Crossing, Sections 1-7; El Tesoro, Section 1; Almeda Crossing; and Almeda Trace, Sections 1-2.
 - (b) Represents acreage in Forbes Crossing, Section 1 (approximately 19 acres), El Tesoro, Sections 2-3 (approximately 30 acres), and South Meadows Place, Section 1 (13 acres). Forbes Crossing, Section 1 will contain approximately 95 lots. According to a representative of Pulte, such lots are anticipated to be available for home building during the second quarter of 2019. El Tesoro, Sections 2-3, will contain approximately 217 lots; such lots are anticipated to be available for home building during the first and second quarters of 2019. South Meadows Place, Section 1 will contain approximately 93 lots; such lots are anticipated to be available for home building during the first quarter of 2019.
 - (c) Includes land in detention/drainage, rights-of-way, and plant sites.

Current Status of Residential Development

The status of development in the District as of November 1, 2018, is summarized in the table below:

<u>Subdivision/Section</u>	<u>Acres</u>	<u>Lots</u>	<u>Homes</u>		<u>Vacant Lots</u>
			<u>Completed</u>	<u>Under Construction</u>	
Southridge Crossing, Sections 1-4 (a)	67	337	337	0	0
Southridge Crossing, Section 5-7 (b)	37	197	197	0	0
El Tesoro, Section 1 (c)	15	81	81	0	0
Alameda Crossing (d)	8	58	58	0	0
Alameda Trace, Sections 1-2 (e)	16	113	113	0	0
Other Acreage Under Development (f)	63	405	-	-	-
Other Developable Acreage	292	-	-	-	-
Non-Developable Acreage	<u>93</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	591	1,191	786	0	0

- (a) These sections are fully developed and built out. The lots in Sections 1 and 2 were developed by GARC and the lots in Sections 3 and 4 were developed by Pulte. Homes in these sections were built by various homebuilders, including Carlisle Homes, Hampton Homes, Banway Homes, GreenEco Builders, and Pulte. Homes in these sections were marketed in the \$145,000 - \$220,000 price range.
- (b) The lots in these sections were developed by Pulte. Pulte has constructed the homes in these sections and homes were marketed in the \$160,000 - \$245,000 price range.
- (c) The homes in this section were constructed by Camillo and Woodcreek and appear on the District's tax roll with an average taxable value of \$145,000. Substantially all of these homes are currently being rented subject to annual rental agreements.
- (d) The lots in this section were developed by a special purpose entity established by UDF. Homes in this section were constructed by Colina Homes were marketed in the \$155,000 - \$195,000 price range.
- (e) The lots were developed and the homes were constructed in this section by Camillo Properties. The lots were developed during calendar years 2015 and 2016, and all of the homes were ready for occupancy by July 2017. The development is a rental home community.
- (f) Represents the land in Forbes Crossing, Section 1, El Tesoro, Sections 2-3, and South Meadows Place, Section 1. Pulte is in the initial phases of land development in Forbes Crossing, Section 1, which is expected to contain approximately 95 lots. According to a representative of Pulte, such lots are presently anticipated to be available for home building during the second quarter of 2019. Peluda is in the process of developing 30 acres of land in El Tesoro, Sections 2-3, which are collectively expected to contain approximately 217 lots. Such lots are presently anticipated to be available for home building during the first and second quarters of 2019. Colina is in the process of developing 13 acres of land in South Meadows Place, Section 1, which will contain 93 lots. Such lots are presently anticipated to be available for home building during the first quarter of 2019.

THE DISTRICT'S DEVELOPERS

Role of a Developer

In general, the activities of developers in a municipal utility district such as the District include purchasing the land within a district, designing the utilities and streets 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, wastewater and drainage facilities pursuant to the rules of TCEQ, as well as gas, telephone and electric service), and selling improved lots and commercial reserves to builders, other developers or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing certain water, wastewater and drainage facilities in the utility district exclusive of water and sewage treatment plants, pursuant to the rules of the TCEQ. In addition, a developer is ordinarily the major taxpayer within a utility district during the property development phase and the developer's inability to pay the taxes assessed on its property within a district would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by the district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a district.

The Developers in the District

The current developers in the District presently include GARC Enterprises, Ltd. ("GARC"), Pulte Homes of Texas ("Pulte"), Peluda, L.P. ("Peluda"), a special purpose entity created and wholly owned by UDF Funding L.P. ("UDF"), a special purpose entity created and wholly owned by Colina Homes ("Colina"), and Camillo Properties ("Camillo"). The developers in the District are collectively referred to herein as the "Developers."

GARC was one of the original developers in approximately 129 acres of land located in the District. GARC developed approximately 51 acres known as Southridge Crossing, Sections 1 and 2, containing 210 lots. In 2014, GARC sold its remaining vacant developed lots and acreage to Pulte. Since that time, Pulte has built out the lots in Sections 1-7, which includes approximately 534 homes.

El Tesoro (one of the original developers in the District) developed approximately 14.6 acres known as El Tesoro, Section 1, which consists of 81 lots. Of those 81 lots, 75 lots were sold to Camillo and the remaining 6 lots were sold to Woodcreek Builders ("Woodcreek"). All of the 81 lots have been built-out. Substantially all of such homes are rented to tenants who have annual rental agreements with rents averaging \$1,250 to \$1,450 per month.

Peluda is in the process of developing 30 acres of land in El Tesoro, Sections 2-3, which are collectively expected to contain approximately 217 lots. Such lots are presently anticipated to be available for home building during the first and second quarters of 2019. Lot sale contracts are in place for all of the 217 lots in El Tesoro, Sections 2-3 with LGI Homes; such lots will be purchased by LGI Homes from Peluda upon substantial completion. Peluda owns an additional 119 acres in the District. While no definitive development plans exist at this time, Peluda plans to develop the remaining 119 acres for single-family residential purposes at some time in the future, but there is no current development and no guarantee development will occur.

Almeda Crossing FL-1, L.P. ("Almeda") is a special purpose entity set up by UDF for the purpose of developing approximately 8 acres in the District known as Almeda Crossing. Almeda has completed the development work in Almeda Crossing, which includes 58 lots and all of the lots have been built-out. Homes in this section were constructed by Colina Homes and marketed in the \$155,000 - \$195,000 price range.

Lexington 26, L.P. ("Lexington") is a special purpose entity established by Colina for the purpose of developing approximately 61 acres in the District known as South Meadows Place. Colina has contracted with UDF to act as the fee developer for the development of the lots in South Meadows Place. According to Colina, certain pre-development work has been completed, including all of the design work for South Meadows Place, Section 1, which represents 13 acres and 93 lots. The 93 lots in South Meadows Place, Section 1 are currently under development; such lots are anticipated to be available for home building during the first quarter of 2019. The homes in South Meadows Place, Section 1, will be constructed by Colina Homes and are anticipated to be marketed in the \$180,000 - \$220,000 price range. South Meadows Place includes an additional 44 acres that may someday be developed into approximately 236 single family lots. No definitive development plans are in place for the development of such acreage in South Meadows Place at this time.

Camillo was the developer of the Almeda Trace subdivision. The Almeda Trace subdivision consists of two sections totaling approximately 16 acres and is subdivided into 113 lots. The land development work in both sections was completed during calendar year 2016 and all of the homes were constructed and ready for occupancy by July, 2017. The homes in Almeda Trace were constructed by Camillo. The homes are part of a rental home community and each home is appearing on the tax roll at approximately \$150,000 per HCAD. All of such homes are rented to tenants who have annual rental agreements with rents averaging \$1,400 per month.

Pulte is currently in the initial phases of land development work on approximately 19 acres known as Forbes Crossing, Section 1. According to a representative of Pulte, the 95 lots in Forbes Crossing, Section 1 are presently anticipated to be available for home building during the second quarter of 2019. Forbes Crossing includes an additional 80 acres that may someday be developed into approximately 418 single family lots. No definitive development plans are in place for the additional 80 acres in Forbes Crossing at this time.

Historical Operations of the System

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The information included in the table below relating to the District's water and sewer system operations is provided for information purposes only.

	FISCAL YEAR END JUNE 30 (a)				
	2018	2017	2016	2015	2014
GENERAL FUND					
REVENUES					
Property taxes	\$277,047	\$194,127	\$61,281	\$61,099	\$52,545
Investment Revenues	\$1,075	\$546	\$584	\$712	\$1,263
TOTAL REVENUES	\$278,122	\$194,673	\$61,865	\$61,811	\$53,808
EXPENDITURES					
Professional Fees	\$148,095	\$144,039	\$68,346	\$62,907	\$49,413
Contracted Services	\$7,855	\$7,766	\$7,785	\$7,673	\$7,695
Repairs and Maintenance	\$51,010	\$55,179	\$11,079	\$9,817	\$9,813
Other	\$12,229	\$11,681	\$10,388	\$8,820	\$9,215
Capital Outlay	\$0	\$0	\$0	\$200,885	\$0
TOTAL EXPENDITURES	\$219,189	\$218,665	\$97,598	\$290,102	\$76,136
EXCESS/DEFICIENCY	\$58,933	(\$23,992)	(\$35,733)	(\$228,291)	(\$22,328)
Other Financing Sources					
Transfers In (Out)	\$16,975	\$0	\$0	\$0	\$0
NET CHANGE IN FUND BALANCE	\$75,908	(\$23,992)	(\$35,733)	(\$228,291)	(\$22,328)
BEGINNING FUND BALANCE	\$156,431	\$180,423	\$216,156	\$444,447	\$466,775
ENDING FUND BALANCE (b)	\$232,339	\$156,431	\$180,423	\$216,156	\$444,447

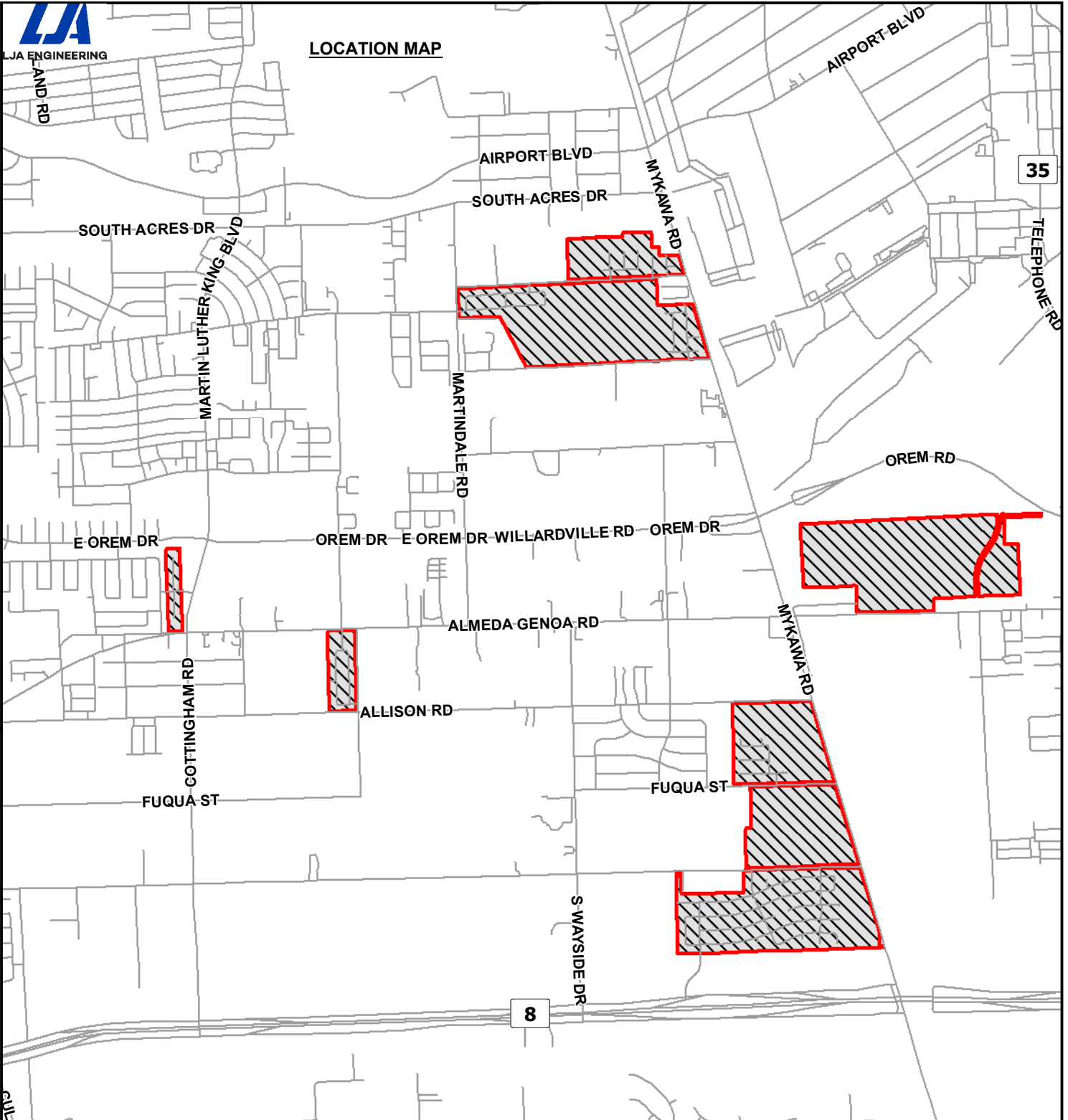
(a) Data is taken from District's audited financial statements. See "APPENDIX A."

(b) As of November 13, 2018, the District's General Fund had unaudited cash and investments balance of approximately \$200,644. The General Fund budget for the fiscal year ending June 30, 2019, calls for General Fund revenues of approximately \$385,000 and expenditures of approximately \$174,855.



LJA ENGINEERING

LOCATION MAP

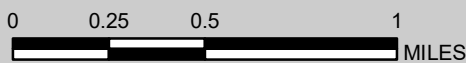


HARRIS COUNTY MUD 460

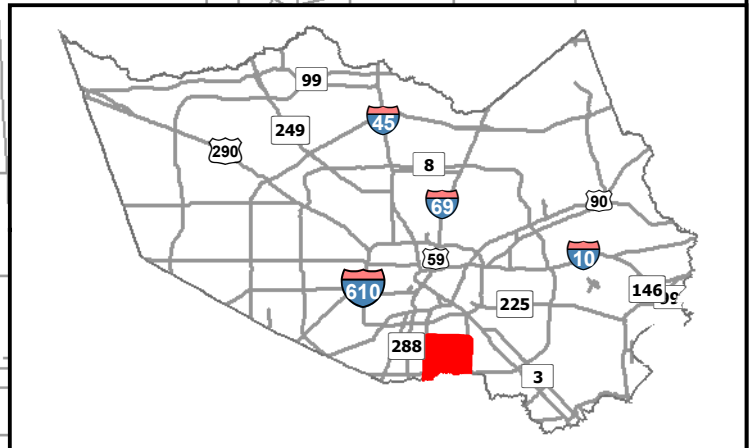
NOVEMBER 2018



HCMUD 460



THIS EXHIBIT IS INTENDED FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TO BE USED FOR DESIGN OR CONSTRUCTION

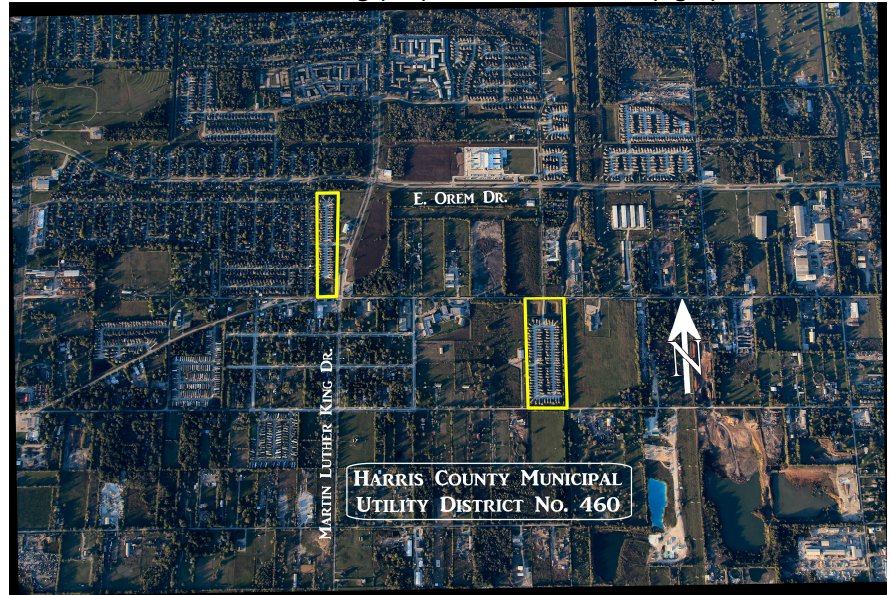


AERIAL PHOTOGRAPH

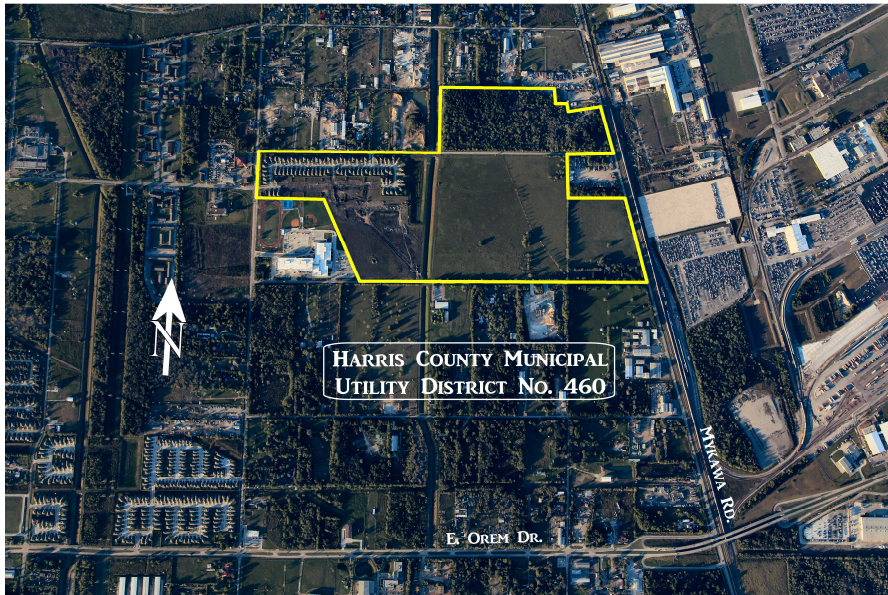
Subdivisions: Southridge Crossing (bottom) and South Meadows Place (top)



Subdivisions: Almeda Crossing (left) and Almeda Trace (right)



Subdivision: El Tesoro



Subdivision: Forbes Crossing



MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board") which has control over and management supervision of all of the affairs of the District. None of the directors reside in the District; each of the directors owns a parcel of land in the District subject to a note and deed of trust. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Expires May</u>
Donald Wayne Middleton	President	2022
Cherrise Traylor	Vice President	2022
Evan Hughes	Secretary	2020
John Gonzales	Assistant Secretary	2020
Jonathan (J.J.) Gonzalez	Assistant Secretary	2022

The District does not employ a general manager or any other full-time employees. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services and annual auditing of its books as follows:

Tax Assessor/Collector - The District's Tax Assessor/Collector is Mr. Mike Arterburn of Utility Tax Service, LLC, who is employed under an annual contract and represents approximately 67 other utility districts.

Bookkeeper - The District's Bookkeeper is L&S District Services, LLC, which acts as bookkeeper for 90 other utility districts.

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 annual financial statements as of June 30, 2018, have been prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's June 30, 2018, audited financial statements.

Utility System Operator - The System's operator is the City of Houston.

Engineer - The consulting engineer for the District is LJA Engineering, Inc. (the "Engineer").

Financial Advisor - The GMS Group, L.L.C., serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of the bonds, if and when such bonds are delivered. The District has adopted a resolution consenting to and allowing The GMS Group, L.L.C., to submit a bid for the Bonds.

Bond Counsel – Sanford Kuhl Hagan Kugle Parker Kahn LLP serves as Bond Counsel to the District and as counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Disclosure Counsel – Norton Rose Fulbright US LLP, Houston, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds, but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds; however, such fees are not contingent upon the sale and delivery of such Bonds.

DISTRICT DEBT

10/1/2018 Estimated Taxable Value	\$138,956,629	(a)
2018 Taxable Value	\$121,480,285	(b)
Direct Debt		
Outstanding Bonds	\$7,665,000	
The Bonds	<u>\$3,180,000</u>	
Total Direct Debt	\$10,845,000	
Estimated Overlapping Debt	<u>\$5,257,585</u>	
Direct and Estimated Overlapping Debt	\$16,102,585	
Percentage of Direct Debt to:		
10/1/2018 Estimated Taxable Value	7.80%	
2018 Taxable Value	8.93%	
Percentage of Direct and Estimated Overlapping Debt to:		
10/1/2018 Estimated Taxable Value	11.59%	
2018 Taxable Value	13.26%	
2018 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.33	
Road Debt Service Tax	\$0.09	
Maintenance Tax	<u>\$0.32</u>	
Total 2018 Tax Rate	\$0.74	
Cash and Temporary Investment Balances as of November 13, 2018		
General Fund	\$200,644	
Debt Service Fund	\$551,552	(c) (d)
Road Debt Service Fund	\$134,733	(d)

-
- (a) The Estimated Taxable Value as of 10/1/2018 was prepared by the HCAD and provided to the District for informational purposes only. The estimated value is not binding on HCAD and the value resulting from home building and construction in the District since January 1, 2018, will not be included on the District's tax roll until the January 1, 2019, certified tax roll is prepared during the second half of 2019. The District is authorized by law to only levy taxes against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 2018 Certified Taxable Value according to data supplied to the District by HCAD. See "TAX DATA" and "TAX PROCEDURES."
- (c) Includes nine months of capitalized interest on the Bonds, which will be deposited into the District's Debt Service Fund on the date of delivery of the Bonds.
- (d) Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund or the Road Debt Service Fund. The cash and investment balances in the Road Debt Service Fund are not available to make debt service payments on the Bonds. See "DISTRICT TAX DATA - Adequacy of Tax Revenue."

Estimated Overlapping Debt

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 the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts 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, the amount of which has not been reported. 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>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Overlapping %</u>	<u>Amount</u>
Houston Independent School District	\$3,151,430,000	0.07%	\$2,179,773
Harris County	\$1,607,663,022	0.03%	\$433,388
Harris County Flood Control District	\$83,075,000	0.03%	\$22,873
Port of Houston Authority	\$593,754,397	0.03%	\$163,491
Harris County Hospital District	\$59,490,000	0.03%	\$16,377
Harris County Department of Education	\$6,555,000	0.03%	\$1,767
Houston Community College System	\$580,635,000	0.06%	\$343,465
City of Houston	\$4,012,020,000	0.05%	<u>\$2,096,451</u>
Total Estimated Overlapping Debt			\$5,257,585
The District (a)			<u>\$10,845,000</u>
Total Direct and Estimated Overlapping Debt			\$16,102,585

(a) Includes the Bonds.

DISTRICT TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax information collection experienced in the District as of September 30, 2018, for the years 2014 through 2018. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Tax Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate (a)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections</u>	<u>Tax Year Ended September 30</u>
2018	\$121,480,285	\$0.74	\$898,954	(b)	(b)
2017	\$86,767,620	\$0.74	\$642,080	99%	2018
2016	\$68,025,849	\$0.74	\$503,391	99%	2017
2015	\$49,063,276	\$0.74	\$363,068	99%	2016
2014	\$31,994,836	\$0.74	\$236,762	99%	2015

(a) See "Tax Rate Distribution" herein.

(b) The District's 2018 taxes are in the process of being collected; such taxes are not due until January 31, 2019.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District and its facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. The District's voters have authorized a maintenance tax of up to \$1.50 per \$100.00 of assessed valuation at elections held on May 13, 2006. The District levied a maintenance and operations tax for the 2018 tax year at a rate of \$0.32 per \$100 of assessed valuation. See " – Tax Rate Distribution" herein.

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all of any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2014 through 2018.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$0.33	\$0.30	\$0.25	\$0.62	\$0.62
Road Debt Service	\$0.09	\$0.14	\$0.18	\$0.00	\$0.00
Maintenance/Operation	<u>\$0.32</u>	<u>\$0.30</u>	<u>\$0.31</u>	<u>\$0.12</u>	<u>\$0.12</u>
Total	\$0.74	\$0.74	\$0.74	\$0.74	\$0.74

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 Taxpayers

The list of principal taxpayers for 2018 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
SM Place FL 1 LP (a)	Land	\$3,931,089	3.24%
Peluda LLC	Land & Improvements	\$3,915,125	3.22%
SRP Sub LLC	Land & Improvements	\$915,255	0.75%
CSH 2016 2 Borrower LLC	Land & Improvements	\$645,104	0.53%
Patel Jatin & Zeena	Land & Improvements	\$592,241	0.49%
Pulte Homes of Texas LP	Land & Improvements	\$545,998	0.45%
CSH 2016-1 Borrower LLC	Land & Improvements	\$516,700	0.43%
Centerpoint Energy Hou Ele	Personal Property	\$483,920	0.40%
Glams Holdings LLC	Land & Improvements	\$460,198	0.38%
Nel Stefanus J	Land & Improvements	<u>\$282,598</u>	<u>0.23%</u>
		\$12,288,228	10.12%

(a) Represents land that is owned by Colina in the South Meadows Place subdivision.

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the exemptions for 2013 through 2018.

Year	<u>Type of Property</u>			Gross Value	Exemptions	Taxable Value
	Land	Improvements	Personal Property			
2018						\$121,480,285 (a)
2017	\$27,678,715	\$59,451,694	\$441,494	\$87,571,903	\$804,283	\$86,767,620
2016	\$20,750,783	\$47,446,642	\$431,597	\$68,629,022	\$603,173	\$68,025,849
2015	\$18,953,132	\$30,238,728	\$302,518	\$49,494,378	\$431,102	\$49,063,276
2014	\$14,171,310	\$18,054,622	\$257,985	\$32,483,917	\$489,081	\$31,994,836

(a) Reflects the 2018 Certified Taxable Value according to data supplied to the District by HCAD.

Estimated Overlapping Taxes

The following table sets forth all 2018 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Entities</u>	<u>2018 Tax Rates</u>
Houston Independent School District	\$1.206700
Harris County (a)	\$0.635170
Houston Community College	\$0.100263
City of Houston	<u>\$0.588310</u>
Overlapping Taxes	\$2.530443
The District	<u>\$0.740000</u>
Total Direct & Overlapping Taxes	\$3.270443

(a) Includes Harris County Flood Control District, Port of Houston Authority, Harris County Hospital District, and Harris County Department of Education.

Adequacy of Tax Revenue

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the values listed below and utilizes a tax rate adequate to service the District's total debt service requirements after the issuance of the Bonds.

Maximum Annual Debt Service Requirements (2036)	\$725,580 (a)
Requires a \$0.55 debt service tax rate on the 10/1/2018 Estimated Taxable Value at 95% collections	\$726,048 (a)
Requires a \$0.63 debt service tax rate on the 2018 Taxable Value at 95% collections	\$727,060 (a)

(a) A certain amount of this total debt service requirement will be paid for with the District's Road Debt Service tax rate and a certain portion of the total debt service amount will be paid for with the District's Debt Service tax rate.

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 and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See "RISK FACTORS - Future Debt." The District agrees in the Bond Order to levy such a tax from year to year as described more fully in this Official Statement under the caption "THE BONDS - Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by the voters in the District. See "DISTRICT TAX DATA - Maintenance Tax."

Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Tax Code are complex and are not fully summarized here. The 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 in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central Appraisal District ("HCAD") has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

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; however, no effort is expected to be made by HCAD to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. 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 of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District is not currently granting any exemptions of the appraised value of the residence homestead of an individual who is disabled or is 65 years of age or older, pursuant to Section 11.13, Texas Tax Code (the "Exemption"). If approved after the District issues a series of Bonds, the Exemption in no way mitigates the District's unlimited tax pledge that secures the interest and principal payments on the Series 2019 Bonds and the District's outstanding bonds. 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 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% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value to the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied including, effective January 1, 2016, the surviving spouse of a disabled veteran who would have qualified for such an exemption if such exemption had been in effect on the date the disabled veteran died. Partially disabled veterans 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 the residence homestead was donated by a charitable organization at no cost to the veteran. Effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces 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.

Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty 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 would be transferrable to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by July 1. The District has never adopted an order granting a general residential homestead exemption.

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exception" 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 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

Harris County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City (after annexation), Harris County, Houston Independent School District, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to 10 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 the terms of the tax abatement. Each taxing jurisdiction, including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. Effective September 1, 2017, certain classes of disabled veterans may receive a deferral or abatement of taxes without penalty during the time he or she owns or occupies the property as their residential homestead.

Valuation of Property for Taxation

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

The 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 Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. 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 chief appraiser is required by the 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 for 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 Tax Code requires HCAD to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in HCAD at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone- or county-wide basis. The District, however, at its expense, has the right to obtain from HCAD 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 HCAD chooses to formally include such values on its appraisal roll.

From time to time the District may be subject to a natural disaster such as a hurricane, tornado, tropical storm or other adverse weather event severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "RISK FACTORS – Inclement Weather". When requested by a local taxing unit, such as the District, HCAD is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal 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 HCAD to compel compliance with the Tax Code.

The Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Tax Code also 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.

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 6% of the amount of the tax for the first calendar month it is delinquent, plus 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 12% regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount (not to exceed 20%) established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount (not to exceed 20%) established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent (April 1). Similarly, a delinquent tax on real property incurs such additional penalty on July 1 of the year in which taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney not to exceed 20%. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. 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 if the person: (1) has been granted an exemption under Section 11.13, Tax Code, (2) requests an installment agreement, and (3) 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. In addition, effective January 1, 2018, property owners affected by a disaster may pay property taxes in four equal installments following the disaster.

Delinquent Tax Payments for Disaster Areas

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

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

CONSOLIDATION

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.

THE BONDS

General

The Bond Order authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Order. Capitalized terms in such summary are used as defined in the Bond Order. Such summary is not a complete description of the entire Bond Order and is qualified in its entirety by reference to the Bond Order, copies of which are available from the District's Bond Counsel upon request.

The Bonds are dated and will bear interest from January 1, 2019, at the per annum rates shown on the cover page hereof. The Bonds represent the fourth series of new money bonds to be issued by the District. The Bonds are fully registered, serial bonds maturing on April 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable October 1, 2019, and each April 1 and October 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

In the event that the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Optional Redemption

The District reserves the right to redeem, prior to maturity the Bonds maturing on or after April 1, 2024, in whole or in part from time to time, on April 1, 2023, or on any date thereafter, at a price of par plus accrued interest to the date of redemption. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be redeemed will be selected by the District. If fewer than all of the Bonds within any one maturity are redeemed, the particular Bonds to be redeemed shall be selected by the Registrar by lot or other random selection method, in integral multiples of \$5,000 in any one maturity. Notice of each exercise of the right of redemption will be given at least thirty days prior to the date fixed for redemption by mailing written notice by first class mail to each of the Registered Owners (the "Registered Owners") of the Bonds to be redeemed. When Bonds have been called for redemption, they will become due and payable on the redemption date.

Mandatory Redemption:

The Bonds maturing in the years 2039, 2041, 2043, and 2045 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

\$725,000 Term Bonds, due April 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2035	\$125,000
April 1, 2036	\$150,000
April 1, 2037	\$150,000
April 1, 2038	\$150,000
April 1, 2039 (maturity)	\$150,000

\$350,000 Term Bonds, due April 1, 2041

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2040	\$175,000
April 1, 2041 (maturity)	\$175,000

\$350,000 Term Bonds, due April 1, 2043

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2042	\$175,000
April 1, 2043 (maturity)	\$175,000

\$400,000 Term Bonds, due April 1, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2044	\$200,000
April 1, 2045 (maturity)	\$200,000

Notice of Redemption; Partial Redemption:

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal.

Source of and Security for Payment

The Bonds are secured by and payable from the levy of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District. In the Bond Order, 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 collections, Registrar fees, and Appraisal District fees. The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City, or any entity other than the District.

Defeasance

The Bond Order 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 tax 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 and all interest to accrue on the Bonds to maturity or redemption, or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in: (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision or 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, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Funds

The Bond Order establishes the District's Debt Service Fund, which is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, and any additional bonds, except for road bonds, payable from taxes which may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

The District also maintains a Road Debt Service Fund that is not pledged to the Bonds. Funds in the Road Debt Service Fund are available only for principal and interest payments on debt attributable to roads and such funds are not available to pay principal and interest on the Bonds.

Paying Agent/Registrar

Pursuant to the Bond Order, the initial paying agent and initial registrar with respect to the Bonds is Zions Bancorporation, National Association, Houston, Texas. The District will maintain at least one Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Order to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Houston, Texas. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) 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 calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Lost, Stolen, or Destroyed Bonds

In the event the Book-Entry-Only System is discontinued, the District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds, or receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity as may be required by either of them to keep them harmless. Upon the issuance of a new bond the District will require payment of taxes, governmental charges, and other expenses (including the fees and expenses of the Registrar), bond printing and legal fees in connection with any such replacement.

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 un-matured 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.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, if required, necessary to provide and rehabilitate improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT--General." The District’s voters have authorized the issuance of a total of \$77,000,000 of unlimited tax bonds for the purposes of providing water, sewer, and drainage facilities. After the issuance of the Bonds, the District has \$68,095,000 unlimited tax bonds for water, sewer, and drainage facilities that remain authorized but unissued, and may additionally issue unlimited tax refunding bonds to refund its outstanding bonds.

The District’s voters have authorized the issuance of a total of \$48,000,000 of unlimited tax bonds for the purposes of providing roads and road related facilities. The District will have \$45,940,000 of unlimited tax bonds for road and road related facilities that will remain authorized, but unissued, after the issuance of the Bonds.

The District’s voters have authorized the issuance of a total of \$7,000,000 of unlimited tax bonds for the costs of the design, construction, purchase, and acquisition of recreational facilities and additions. The District will have \$7,000,000 of unlimited tax bonds for recreational facilities that will remain unissued after the issuance of the Bonds.

Depending upon the District’s future issuance of tax-supported debt and the development of the District’s tax base, increases in the District’s annual ad valorem tax rate may be required to provide for the payment of principal of and interest on the District’s current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Order imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District’s voters and approved by the Board and the TCEQ).

Amendments to the Bond Order

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may: (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds; (b) give preference of any Bond over any other Bond; or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Securities is to be transferred and how the principal of, premium, if any, Maturity Value and interest on the Securities are to be paid to and credited by DTC while the Securities 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, the Financial Advisor, and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Securities, 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 Securities), 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 United States 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, New York, will act as securities depository for the Securities. The Securities 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 Securities, each in the aggregate principal amount or Maturity Value, as the case may be, 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. 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.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Securities 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 securities representing their ownership interests in Securities except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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 fewer than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Securities 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 detailed information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, securities are required to be printed and delivered.

The District may decide to discontinue use of the system of Book-Entry-Only-System transfers through DTC (or a successor securities depository). In that event, securities will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's Book-Entry-Only-System has been obtained from sources that the District believes to be reliable; the District, the District's Financial Advisor, and the Underwriter do not take any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

TAX MATTERS

Delivery of the Bonds is subject to an opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of Bonds, pursuant to section 103 of the Internal Revenue Code of 1986 (the "Code"), as amended to the date of issuance of the Bonds, existing regulations, published rulings, and court decisions, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in the alternative minimum tax on individuals. The statutes, regulations, rulings, and court decisions on which the opinion is based are subject to change.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order 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 Order 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 Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences under present law or proposed legislation 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 among others, 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 to their particular circumstances.

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

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations, or litigation and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

The Tax Cuts and Jobs Act, which became law on December 22, 2017, repealed the provisions allowing for tax-exempt advance refundings, prohibiting any tax-exempt advance refunding bonds from being issued after December 31, 2017.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

Tax Accounting Treatment of Original Issue Premium Bonds

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, broker, and similar persons or entities acting in the capacity of wholesales or underwriters) at such initial offering price, each of the Bonds of such maturity (the "Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium 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 District 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 designated the Bonds as "qualified tax-exempt obligations" and represents 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 2019 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 2019.

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriters a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds. Such transcript will include the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of the Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property in the District. The District will also furnish the approving legal opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that: (i) the Bonds are payable, both as to principal and interest,

from the levy of ad valorem taxes, without limitation as to rate or amount, against all taxable property within the District; (ii) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and (iii) the Bonds are not "private activity bonds" under the Code and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described in the discussion regarding the adjusted current earnings adjustments for corporations. Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

Legal Review

In its capacity as Bond Counsel, Sanford Kuhl Hagan Kugle Parker Kahn LLP has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION," "THE DISTRICT – Authority," "TAXING PROCEDURES," "CONSOLIDATION," "THE BONDS," "TAX MATTERS," and "LEGAL MATTERS - Legal Opinions" (to the extent such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the legal matters and documents referred to therein. Bond Counsel has not, however, independently verified any of the other 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 any of the other information contained herein. 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, other than the matters discussed immediately above.

Sanford Kuhl Hagan Kugle Parker Kahn 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 issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, and other sources that are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

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

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

Engineer - The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and certain engineering matters included in "THE DISTRICT – Description," "– Status of Land Development/Land Uses in the District," and "– Current Status of Development" have been provided by LJA Engineering, Inc. and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector - The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA" has been provided by HCAD and by Utility Tax Service, L.L.C., in reliance upon their authority as experts in the field of tax assessing and appraising.

Auditor - The District's annual financial statements as of June 30, 2018, have been prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's June 30, 2018, audited financial statements.

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District audit report is required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, TX, 77056.

Certification as to Official Statement

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 460 as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 460
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 460 (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 10, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 460's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, maintenance tax revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the costs of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for the acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assists in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,395,442 as of June 30, 2018.

A portion of the District's net position reflects its net investment in capital assets (land and detention facilities, less any debt used to acquire those assets that is still outstanding).

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a comparative analysis of government-wide changes in net position:

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2018</u>	<u>2017</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 1,188,857	\$ 2,274,009	\$ (1,085,152)
Intangible Assets (Net of Accumulated Amortization)	10,282,066	9,851,348	430,718
Capital Assets (Net of Accumulated Depreciation)	<u>2,620,766</u>	<u>2,648,757</u>	<u>(27,991)</u>
Total Assets	<u>\$ 14,091,689</u>	<u>\$ 14,774,114</u>	<u>\$ (682,425)</u>
Deferred Outflows of Resources	<u>\$ 112,142</u>	<u>\$ -0-</u>	<u>\$ 112,142</u>
Due to Developer	\$ 5,124,624	\$ 8,153,319	\$ 3,028,695
Long -Term Liabilities	7,555,836	4,068,713	(3,487,123)
Other Liabilities	<u>127,929</u>	<u>3,197,048</u>	<u>3,069,119</u>
Total Liabilities	<u>\$ 12,808,389</u>	<u>\$ 15,419,080</u>	<u>\$ 2,610,691</u>
Net Position:			
Net Investment in Capital Assets	\$ 488,661	\$ (1,229,161)	\$ 1,717,822
Restricted	671,521	456,342	215,179
Unrestricted	<u>235,260</u>	<u>127,853</u>	<u>107,407</u>
Total Net Position	<u>\$ 1,395,442</u>	<u>\$ (644,966)</u>	<u>\$ 2,040,408</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the year ended June 30, 2018, and June 30, 2017. The District's net position increased by \$2,040,408.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 656,857	\$ 493,272	\$ 163,585
Contributed by Other Governmental Unit	2,452,241		2,452,241
Other Revenues	<u>54,754</u>	<u>34,328</u>	<u>20,426</u>
Total Revenues	\$ 3,163,852	\$ 527,600	\$ 2,636,252
Expenses for Services	<u>1,123,444</u>	<u>802,789</u>	<u>(320,655)</u>
Change in Net Position	\$ 2,040,408	\$ (275,189)	\$ 2,315,597
Net Position, Beginning of Year	<u>(644,966)</u>	<u>(369,777)</u>	<u>(275,189)</u>
Net Position, End of Year	<u>\$ 1,395,442</u>	<u>\$ (644,966)</u>	<u>\$ 2,040,408</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of June 30, 2018, was \$1,071,089, an increase of \$2,005,100 from prior year.

The District's General Fund fund balance increased by \$75,908, primarily due to current year revenue exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$267,811 primarily due to the issuance of the Series 2018 Unlimited Tax Bonds and Series 2018A Unlimited Refunding Bonds.

The Capital Project Fund fund balance increased by \$1,661,381 due to the issuance of the Series 2018 Unlimited Tax Bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year to increase projected tax revenues and repairs and maintenance costs. Actual revenues were \$39,702 more than budgeted revenues, primarily due to higher than anticipated property tax revenues. Actual expenditures were \$39,834 more than budgeted expenditures, primarily due to higher than anticipated professional fees.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

CAPITAL AND INTANGIBLE ASSETS

Capital assets as of June 30, 2018, total \$2,620,766 and include land and detention facilities which the District will be responsible for maintaining. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,208,374	\$ 1,208,374	\$
Capital Assets, Net of Accumulated Depreciation:			
Detention Facilities	1,412,392	1,440,383	(27,991)
Total Net Capital Assets	\$ 2,620,766	\$ 2,648,757	\$ (27,991)

The District is located within the city limits of the City of Houston (the "City"). In accordance with a Utility Functions and Service Allocation Agreement with the City, all water and wastewater facilities and certain storm water facilities are conveyed to the City once constructed and placed in service. The City operates the facilities as is responsible for the maintenance. Additionally, road and paving facilities are constructed and conveyed to Harris County which is responsible for maintenance. The District has recognized an intangible asset for the cost of facilities conveyed, which has a June 30, 2018 balance, net of accumulated amortization, of \$10,282,066.

LONG-TERM DEBT ACTIVITY

As of June 30, 2018, the District had total bond debt payable of \$7,665,000. The changes in the debt position of the District during the fiscal year ended June 30, 2018, are summarized as follows:

Bond Debt Payable, July 1, 2017	\$ 4,140,000
Add: Bond Sales	5,655,000
Less: Bond Principal Paid and Refunded	2,130,000
Bond Debt Payable, June 30, 2018	\$ 7,665,000

The District's Series 2015 Road bonds, Series 2018 bonds and Series 2018A Refunding bonds are non-rated for underlying rating purposes. The Series 2018 bonds and Series 2018A Refunding bonds have an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year ending June 30, 2019 projects an increase of \$50,505 to the General Fund fund balance. Revenue is expected to be \$225,360 and expenses are expected to be \$174,855.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 460, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Blvd., Suite 1380, Houston, Texas 77056

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 128,992	\$ 89,517
Investments	150,000	645,000
Receivables:		
Property Taxes	6,526	12,534
Penalty and Interest on Delinquent Taxes		
Accrued Interest	88	1,903
Other		74
Due from Other Funds	307	
Prepaid Costs		
Intangible Assets - Right to Receive Service (Net of Accumulated Amortization)		
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 285,913	\$ 749,028
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refundings	\$ -0-	\$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 285,913	\$ 749,028

The accompanying notes to the financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 107,695	\$ 326,204 795,000	\$	\$ 326,204 795,000
	19,060		19,060
		3,681	3,681
	1,991		1,991
	74		74
	307	(307)	
		42,847	42,847
		10,282,066	10,282,066
		1,208,374	1,208,374
		<u>1,412,392</u>	<u>1,412,392</u>
<u>\$ 107,695</u>	<u>\$ 1,142,636</u>	<u>\$ 12,949,053</u>	<u>\$ 14,091,689</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 112,142</u>	<u>\$ 112,142</u>
<u>\$ 107,695</u>	<u>\$ 1,142,636</u>	<u>\$ 13,061,195</u>	<u>\$ 14,203,831</u>

The accompanying notes to the financial statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 47,048	\$
Accrued Interest Payable		5,132
Due to Developers		
Due to Other Funds		307
Long-Term Liabilities:		
Bonds Payable Within One Year		
Bonds Payable After One Year		
TOTAL LIABILITIES	\$ 47,048	\$ 5,439
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 6,526	\$ 12,534
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		731,055
Unassigned	232,339	
TOTAL FUND BALANCES	\$ 232,339	\$ 731,055
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 285,913	\$ 749,028
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

The accompanying notes to the financial statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 47,048	\$	\$ 47,048
	5,132	75,749	80,881
		5,124,624	5,124,624
	307	(307)	
		125,000	125,000
		7,430,836	7,430,836
<u>\$ -0-</u>	<u>\$ 52,487</u>	<u>\$ 12,755,902</u>	<u>\$ 12,808,389</u>
<u>\$ -0-</u>	<u>\$ 19,060</u>	<u>\$ (19,060)</u>	<u>\$ -0-</u>
\$ 107,695	\$ 107,695	\$ (107,695)	\$
	731,055	(731,055)	
	232,339	(232,339)	
<u>\$ 107,695</u>	<u>\$ 1,071,089</u>	<u>\$ (1,071,089)</u>	<u>\$ - 0 -</u>
<u>\$ 107,695</u>	<u>\$ 1,142,636</u>		
		\$ 488,661	\$ 488,661
		671,521	671,521
		235,260	235,260
		<u>\$ 1,395,442</u>	<u>\$ 1,395,442</u>

The accompanying notes to the financial statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ 1,071,089

Amounts reported for governmental activities in the Statement of Net Position are different because:

Insurance paid in advance as part of a bond sale is recorded as an expenditure in the governmental funds. However, in the government wide statements this is recorded as a prepaid cost and systematically charged to interest expense over the life of the new debt. 42,847

Intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 10,282,066

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 112,142

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 2,620,766

Deferred inflows related to property tax revenues and uncollected penalty and interest on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District. 22,741

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (5,124,624)	
Accrued Interest Payable	(75,749)	
Bonds Payable	<u>(7,555,836)</u>	<u>(12,756,209)</u>

Total Net Position - Governmental Activities \$ 1,395,442

The accompanying notes to the financial statements are an integral part of this report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 277,047	\$ 414,130
Penalty and Interest		31,100
Contributed by Other Governmental Unit		
Investment Revenues	1,075	5,022
Miscellaneous Revenue		10
Tax Rebate		22,060
	<u> </u>	<u> </u>
TOTAL REVENUES	<u>\$ 278,122</u>	<u>\$ 472,322</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 148,095	\$ 14,140
Contracted Services	7,855	16,413
Repairs and Maintenance	51,010	
Amortization		
Depreciation		
Other	12,229	6,688
Capital Outlay		
Debt Service:		
Bond Principal		100,000
Bond Interest		167,825
Bond Issuance Costs		145,879
	<u> </u>	<u> </u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 219,189</u>	<u>\$ 450,945</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 58,933</u>	<u>\$ 21,377</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out), Note 2	\$ 16,975	\$ 53,119
Long-Term Debt Issued		93,469
Refunding Bonds		2,180,000
Payment to Refunded Bond Escrow Agent		(2,092,275)
Bond Discount		
Bond Premium		12,121
	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 16,975</u>	<u>\$ 246,434</u>
NET CHANGE IN FUND BALANCES	\$ 75,908	\$ 267,811
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JULY 1, 2017	<u>156,431</u>	<u>463,244</u>
FUND BALANCES/NET POSITION - JUNE 30, 2018	<u>\$ 232,339</u>	<u>\$ 731,055</u>

The accompanying notes to the financial
statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 691,177	\$ (34,320)	\$ 656,857
	31,100	(4,513)	26,587
		2,452,241	2,452,241
	6,097		6,097
	10		10
	22,060		22,060
<u>\$ - 0 -</u>	<u>\$ 750,444</u>	<u>\$ 2,413,408</u>	<u>\$ 3,163,852</u>
\$	\$ 162,235	\$	\$ 162,235
	24,268		24,268
	51,010		51,010
		287,758	287,758
		42,338	42,338
27,378	46,295		46,295
1,309,277	1,309,277	(1,309,277)	
	100,000	(100,000)	
	167,825	30,260	198,085
209,151	355,030	(43,575)	311,455
<u>\$ 1,545,806</u>	<u>\$ 2,215,940</u>	<u>\$ (1,092,496)</u>	<u>\$ 1,123,444</u>
<u>\$ (1,545,806)</u>	<u>\$ (1,465,496)</u>	<u>\$ 3,505,904</u>	<u>\$ 2,040,408</u>
\$ (70,094)	\$	\$	\$
3,381,531	3,475,000	(3,475,000)	
	2,180,000	(2,180,000)	
	(2,092,275)	2,092,275	
(104,250)	(104,250)	104,250	
	12,121	(12,121)	
<u>\$ 3,207,187</u>	<u>\$ 3,470,596</u>	<u>\$ (3,470,596)</u>	<u>\$ - 0 -</u>
\$ 1,661,381	\$ 2,005,100	\$ (2,005,100)	\$
		2,040,408	2,040,408
<u>(1,553,686)</u>	<u>(934,011)</u>	<u>289,045</u>	<u>(644,966)</u>
<u>\$ 107,695</u>	<u>\$ 1,071,089</u>	<u>\$ 324,353</u>	<u>\$ 1,395,442</u>

The accompanying notes to the financial statements are an integral part of this report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Net Change in Fund Balances - Governmental Funds	\$	2,005,100
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(34,320)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		(4,513)
Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital and intangible assets are depreciated and amortized. The depreciation and amortization expense is recorded in the Statement of Activities.		(330,096)
Governmental funds report bond premiums and discounts as other financing sources and uses in the year paid. However, in the Statement of Net Position, bond premiums and discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		135,704
Governmental funds report developer reimbursements as an expense. However, in the Statement of Net Position, developer reimbursements are reported as decreases to amounts due to developer.		1,309,277
In the Statement of Activities, the cost of completed facilities that were contributed by the City of Houston is recorded as revenue.		2,452,241
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		100,000
Governmental funds report interest and insurance expenditures on long-term debt as expenditures in the year paid, deferred charges as deferred outflows of resources and bond discounts and premiums as other uses and sources. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end and insurance, deferred charges, bond discounts and bond premiums are amortized over the life of the debt against interest expense.		(30,260)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(5,655,000)
Governmental funds report the payment to the refunded bond escrow agent as an other financing use. However, the refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position.		2,092,275
Change in Net Position - Governmental Activities	\$	<u>2,040,408</u>

The accompanying notes to the financial statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 460 of Harris County, Texas (the “District”) was created by Act of May 24, 2005, 79th Legislature, Regular Session, Senate Bill 1884 (codified as Texas Special District Local Laws Code Ann. Section 8124). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, to construct roads, to provide solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on March 13, 2006, and the first bonds were issued on September 20, 2011.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are generally maintained in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality (the “Commission”).

The District is a political subdivision of the State of Texas governed by an elected board. GASB 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 statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, and intangible assets net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental funds financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay and intangible assets are allocated over their estimated useful lives as depreciation and amortization expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has three governmental funds and considers each to be major funds.

General Fund – To account for resources not required to be accounted for in another fund, maintenance tax revenues, operating costs and general expenditures.

Debt Service Fund – To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and cost of assessing and collecting taxes.

Capital Projects Fund – To account for financial resources restricted, committed or assigned for the acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of June 30, 2018, the Debt Service Fund owed the General Fund \$307 for maintenance tax collections. During the year ended June 30, 2018, the Capital Projects Fund transferred \$70,094 to the General Fund for prior year bond issuance costs and capital outlay expenditures and the General Fund transferred \$53,119 to the Debt Service Fund related to tax collections.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life greater than two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered “employees” for federal payroll tax purposes only.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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 does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. LONG-TERM DEBT

	Series 2015 Road	Series 2018	Series 2018A Refunding
Amount Outstanding – June 30, 2018	\$ 2,010,000	\$ 3,475,000	\$ 2,180,000
Interest Rates	2.000% - 4.000%	3.000% - 5.500%	3.000% - 3.375%
Maturity Dates – Serially Beginning/Ending	April 1, 2019/2043	April 1, 2021/2043	April 1, 2019/2038
Interest Payment Dates	October 1/ April 1	October 1/ April 1	October 1/ April 1
Callable Dates	April 1, 2021*	April 1, 2023*	April 1, 2024*

* The Bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2015 term bonds due April 1, 2035, April 1, 2039, and April 1, 2043; Series 2018 term bonds due April 1, 2032, April 1, 2036, and April 1, 2043; and Series 2018A term bonds due April 1, 2024, April 1, 2030, April 1, 2033, April 1, 2035 and April 1, 2038 are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on April 1 in the years and amounts as reflected in the debt service schedules.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2018:

	July 1, 2017	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 4,140,000	\$ 5,655,000	\$ 2,130,000	\$ 7,665,000
Unamortized Discounts	(71,287)	(104,250)	(54,454)	(121,083)
Unamortized Premiums		12,121	202	11,919
Bonds Payable, Net	\$ 4,068,713	\$ 5,562,871	\$ 2,075,748	\$ 7,555,836
			Amount Due Within One Year	\$ 125,000
			Amount Due After One Year	7,430,836
			Bonds Payable, Net	\$ 7,555,836

As of June 30, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 125,000	\$ 278,817	\$ 403,817
2020	130,000	264,162	394,162
2021	235,000	260,638	495,638
2022	240,000	251,338	491,338
2023	235,000	241,762	476,762
2024-2028	1,335,000	1,065,598	2,400,598
2029-2033	1,635,000	822,582	2,457,582
2034-2038	2,045,000	518,347	2,563,347
2039-2043	1,685,000	186,593	1,871,593
	\$ 7,665,000	\$ 3,889,837	\$ 11,554,837

On January 11, 2018, the District issued Unlimited Tax Bonds, Series 2018 of \$3,475,000 with interest rates ranging from 3.0% to 5.5%. The net proceeds of \$3,192,544 (after payment of bond issuance costs) were used by the District to i) pay off the Series 2017 Bond Anticipation Note including interest, ii) reimburse developers for various construction costs related to water, wastewater and drainage facilities and ii) pay future bond interest costs.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

On February 28, 2018, the District issued Unlimited Tax Refunding Bonds, Series 2018A of \$2,180,000 with interest rates ranging from 3.000% to 3.375% to currently refund \$2,030,000 of its previously issued Series 2011 bonds in order to lower its overall debt service requirements. The net proceeds of \$2,097,407 (after payment of underwriting fees, insurance and other issuance costs) were used for the following: \$2,092,275 was deposited with an escrow agent to provide the debt service payment on the portion of bonds refunded, and \$5,132 was deposited in the Debt Service Fund for future interest costs. As a result, \$2,030,000 of bond principal was considered defeased and the liability for these bonds was removed from the basic financial statements. At June 30, 2018, none of the refunded bonds are considered defeased as \$2,030,000 of the Series 2011 bonds were retired prior to year-end. The reacquisition price exceeded the net carrying amount of the old debt by \$62,275; this amount is considered a deferred inflow of resources and amortized over the life of the refunded debt which is shorter than or equal to the life of the new debt issued. The current refunding resulted in an economic gain of \$449,240 and an overall debt service savings of \$653,952.

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The District has authorized but unissued bonds in the amount of \$71,275,000 for water, sewer and drainage purposes, \$45,940,000 for road purposes and \$7,000,000 for recreational purposes.

During the year ended June 30, 2018, the District levied an ad valorem debt service tax rate of \$0.44 (\$0.30 for utility bonds and \$0.14 for road bonds) per \$100 of assessed valuation, which resulted in a tax levy of \$381,959 on the adjusted taxable valuation of \$86,808,934 for the 2017 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt, but no later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The bond order states that the District should take all necessary steps to comply with the requirement that rebatable arbitrage earnings, if any, on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the internal Revenue Code, be rebated to the federal government.

In accordance with the bond order for the Series 2015 Road Bonds and Series 2018 Tax Bonds, a portion of the bond proceeds was deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Restricted for Bond Interest – July 1, 2017	\$ 50,028
Plus: Capitalized Interest – Series 2018	93,469
Less: Bond Interest – Series 2015 Road	50,028
Less: Bond Interest – Series 2018	<u>31,156</u>
Restricted for Bond Interest – June 30, 2018	<u>\$ 62,313</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$1,121,204 and the bank balance was \$1,123,762. Of the bank balance, \$761,565 was covered by federal depository insurance and the remaining balance was collateralized with securities held in a third-party depository in the District’s name.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 128,992	\$ 150,000	\$ 278,992
DEBT SERVICE FUND	89,517	645,000	734,517
CAPITAL PROJECTS FUND	<u>107,695</u>	<u> </u>	<u>107,695</u>
TOTAL DEPOSITS	<u>\$ 326,204</u>	<u>\$ 795,000</u>	<u>\$ 1,121,204</u>

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of June 30, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Certificate of Deposit	\$ 150,000	\$ 150,000
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	<u>\$ 645,000</u>	<u>\$ 645,000</u>
TOTAL INVESTMENTS	<u>\$ 795,000</u>	<u>\$ 795,000</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages this risk by investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6. CAPITAL AND INTANGIBLE ASSETS

Capital asset activity for the year ended June 30, 2018:

	July 1, 2017	Increases	Decreases	June 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,208,374	\$ - 0 -	\$ - 0 -	\$ 1,208,374
Capital Assets Subject to Depreciation				
Detention Facilities	\$ 1,840,489	\$ 14,347	\$ - 0 -	\$ 1,854,836
Accumulated Depreciation				
Detention Facilities	\$ 400,106	\$ 42,338	\$ - 0 -	\$ 442,444
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,440,383</u>	<u>\$ (27,991)</u>	<u>\$ - 0 -</u>	<u>\$ 1,412,392</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,648,757</u>	<u>\$ (27,991)</u>	<u>\$ - 0 -</u>	<u>\$ 2,620,766</u>

In accordance with a Utility Functions and Services Allocation Agreement (see Note 8), the water, wastewater and certain storm water capital assets constructed by the District's Developer, for which the District has recorded a liability in the Statement of Net Position, have been submitted for conveyance to the City of Houston for operations and maintenance. Additionally, road and paving assets constructed by the District's Developer have been conveyed to Harris County for maintenance. Intangible assets, net of accumulated amortization, including current year amortization of \$287,758, totaled \$10,282,066 as of June 30, 2018.

NOTE 7. MAINTENANCE TAX

On May 13, 2006, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended June 30, 2018, the District levied an ad valorem maintenance tax rate of \$0.30 per \$100 of assessed valuation, which resulted in a tax levy of \$260,427 on the adjusted taxable valuation of \$86,808,934 for the 2017 tax year.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8. UTILITY FUNCTIONS AND SERVICES ALLOCATION AGREEMENT

On May 7, 2008, the District entered into a Utility Functions and Services Allocation Agreement (the “Agreement”) with the City of Houston, Texas (the “City”). The Agreement acknowledges that the District is within the corporate limits of the City. The Agreement provides that the District will acquire, for the benefit of and conveyance to the City, certain water and wastewater and storm drainage facilities needed to serve lands being developed within and near the boundaries of the District in order to enhance the economic feasibility of the District. Exhibits to the Agreement also provide that the City can agree to pay a portion of the construction costs of said utilities through “Developer Participation Contracts” between the City and the Developer and/or through “Interlocal Agreements” with the District.

As facilities are acquired, constructed and conveyed to the City, the City will assume responsibility for operation and maintenance of the conveyed water, wastewater and storm water drainage facilities. The City will bill and collect for water and wastewater services from the customers within the District at the same rates as those the City charges its other customers.

In consideration of the development of the land within the District and City, the related increase in taxable value and as a result of the conveyance of the facilities to the City, the City agreed to make an annual payment to the District of a portion of the City’s tax revenues actually collected and received by the City. Currently, the rebate is calculated with the following formula:

$$R \times \frac{\text{City property tax rate for debt service on property tax-supported bonds}}{\text{assessed valuation of in-city district}} = \frac{\text{dollar value offset in in-city district}}{100}$$

R is the approximate value of the ratio between the City’s debt service payments for stormwater facilities and the total City debt service payments for all tax-supported bonds. Initially, R is 0.13. The City shall recompute R every ten years and shall provide the District documentation that supports any change to this ratio.

The payment is to be made on April 1 in the calendar year following the calendar year in which the District completes its initial bond sale and will be payable each April 1 thereafter. The agreement makes provision that for correction or supplemental tax rolls, the District is responsible for notifying the City of the changes, so the rebate calculation can be revised for the changes in taxable values. The City is obligated to provide the District an accounting together with each annual payment.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8. UTILITY FUNCTIONS AND SERVICES ALLOCATION AGREEMENT
(Continued)

The District and City acknowledge that the City has the legal authority to dissolve the District at any time, should the appropriate circumstances exist. The Agreement will remain in effect until the earlier of 50 years or the dissolution of the District by the City.

During the current fiscal year, the District received \$22,060 from the City for the 2017 tax rebate.

NOTE 9. UNREIMBURSED COSTS

The District has executed development financing agreements with Developers within the District. The agreements call for the Developers to make operating advances as well as fund costs associated with water, sewer and drainage facilities until such time as the District can sell bonds. As reflected on the Statement of Net Position, \$5,124,624 has been recorded as due to Developers. Of this amount, \$5,078,172 has been recorded for completed projects and \$46,452 has been recorded for Developer advances to cover operating costs. The completed projects include \$12,442,131 pertaining to capital assets that have been deemed conveyed to the City of Houston or Harris County (see Note 6).

NOTE 10. 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 natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 11. SUBSEQUENT EVENT

On July 26, 2018, the District submitted a bond application to the Commission requesting approval to issue bonds in the amount of \$3,180,000. As the date of the report, the District has not received approval to issue the bonds.

On September 12, 2018, the District approved the use of \$45,657 of surplus funds from the Series 2011, Series 2015 and Series 2018 bonds for maintenance of various drainage improvements in the District.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 175,000	\$ 238,000	\$ 277,047	\$ 39,047
Investment Revenues	<u>420</u>	<u>420</u>	<u>1,075</u>	<u>655</u>
TOTAL REVENUES	<u>\$ 175,420</u>	<u>\$ 238,420</u>	<u>\$ 278,122</u>	<u>\$ 39,702</u>
EXPENDITURES				
Services Operations:				
Professional Fees	\$ 78,400	\$ 78,400	\$ 148,095	\$ (69,695)
Contracted Services	7,800	7,800	7,855	(55)
Repairs and Maintenance	60,000	72,000	51,010	20,990
Other	<u>21,155</u>	<u>21,155</u>	<u>12,229</u>	<u>8,926</u>
TOTAL EXPENDITURES	<u>\$ 167,355</u>	<u>\$ 179,355</u>	<u>\$ 219,189</u>	<u>\$ (39,834)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 8,065</u>	<u>\$ 59,065</u>	<u>\$ 58,933</u>	<u>\$ (132)</u>
OTHER FINANCING SOURCES				
Transfer In	<u>\$</u>	<u>\$</u>	<u>\$ 16,975</u>	<u>\$ 16,975</u>
NET CHANGE IN FUND BALANCE	\$ 8,065	\$ 59,065	\$ 75,908	\$ 16,843
FUND BALANCE - JULY 1, 2017	<u>156,431</u>	<u>156,431</u>	<u>156,431</u>	<u></u>
FUND BALANCE - JUNE 30, 2018	<u>\$ 164,496</u>	<u>\$ 215,496</u>	<u>\$ 232,339</u>	<u>\$ 16,843</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JUNE 30, 2018

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u>N/A</u>	Retail Water	<u>N/A</u>	Wholesale Water	<u>X</u>	Drainage
<u>N/A</u>	Retail Wastewater	<u>N/A</u>	Wholesale Wastewater	<u>N/A</u>	Irrigation
<u>N/A</u>	Parks/Recreation	<u>N/A</u>	Fire Protection	<u>N/A</u>	Security
<u>N/A</u>	Solid Waste/Garbage	<u>N/A</u>	Flood Control	<u>N/A</u>	Roads
<u>N/A</u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u>N/A</u>	Other (specify): _____				

Pursuant to the Utility Functions and Services Allocation Agreement, the water, wastewater and certain storm water facilities constructed by the District have been conveyed to the City. The District retains ownership of the storm water detention facilities. The City owns, operated and maintains facilities which the District conveys to it for the benefit of the residents of the District.

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved or effective: N/A.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	N/A				
WASTEWATER:	N/A				
SURCHARGE:	N/A				

Total monthly charges per 10,000 gallons usage: Water: \$N/A Wastewater: \$N/A Surcharge: \$N/A Total: \$N/A

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2018**

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely X Partly Not at all

City or Cities in which District is located:

City of Houston, Texas.

Are Board appointed by an office outside the District?

Yes No X

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2018

PROFESSIONAL FEES:	
Auditing	\$ 10,750
Engineering	62,909
Legal	72,636
Financial Advisor	<u>1,800</u>
TOTAL PROFESSIONAL FEES	<u>\$ 148,095</u>
CONTRACTED SERVICES -	
Bookkeeping	<u>\$ 7,855</u>
REPAIRS AND MAINTENANCE	<u>\$ 51,010</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 6,000
Dues	1,250
Insurance	3,785
Payroll Taxes	459
Travel and Meetings	135
Other	<u>600</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 12,229</u>
TOTAL EXPENDITURES	<u><u>\$ 219,189</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX0773	2.15%	12/20/18	\$ 150,000	\$ 88
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX2498	1.00%	09/26/18	\$ 245,000	\$ 644
Certificate of Deposit	XXXX0705	1.60%	09/26/18	245,000	606
Certificate of Deposit	XXXX0606	1.60%	09/26/18	155,000	653
TOTAL DEBT SERVICE FUND				<u>\$ 645,000</u>	<u>\$ 1,903</u>
TOTAL - ALL FUNDS				<u>\$ 795,000</u>	<u>\$ 1,991</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JULY 1, 2017	\$	17,874	\$	35,506
Adjustments to Beginning				
Balance		5,276	\$	7,305
		\$	23,150	\$
				42,811
Original 2017 Tax Levy	\$	219,205	\$	321,500
Adjustment to 2017 Tax Levy		41,222	260,427	60,459
TOTAL TO BE				
ACCOUNTED FOR		\$	283,577	\$
				424,770
TAX COLLECTIONS:				
Prior Years	\$	20,658	\$	36,193
Current Year		256,393	277,051	376,043
				412,236
TAXES RECEIVABLE -				
JUNE 30, 2018		\$	6,526	\$
				12,534
TAXES RECEIVABLE BY				
YEAR:				
2017	\$	4,034	\$	5,916
2016		1,639		2,274
2015		576		2,977
2014		240		1,240
2013		24		124
2012		1		3
2011 and Prior		12		
TOTAL	\$	6,526	\$	12,534

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 27,683,715	\$ 18,953,713	\$ 18,953,132	\$ 13,625,626
Improvements	59,451,694	47,450,542	29,917,951	18,054,622
Personal Property	465,560	404,483	262,125	257,985
Exemptions	<u>(792,035)</u>	<u>(486,095)</u>	<u>(395,777)</u>	<u>(477,081)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 86,808,934</u>	<u>\$ 66,322,643</u>	<u>\$ 48,737,431</u>	<u>\$ 31,461,152</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.44	\$ 0.43	\$ 0.62	\$ 0.62
Maintenance	<u>0.30</u>	<u>0.31</u>	<u>0.12</u>	<u>0.12</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>
ADJUSTED TAX LEVY*	<u>\$ 642,386</u>	<u>\$ 490,787</u>	<u>\$ 360,657</u>	<u>\$ 232,812</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.45 %</u>	<u>99.20 %</u>	<u>99.01 %</u>	<u>99.36 %</u>

* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on May 13, 2006.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 5 R O A D

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October/ April 1	Total
2019	\$ 50,000	\$ 74,356	\$ 124,356
2020	50,000	73,356	123,356
2021	50,000	72,232	122,232
2022	50,000	70,982	120,982
2023	50,000	69,606	119,606
2024	50,000	68,106	118,106
2025	50,000	66,606	116,606
2026	50,000	65,044	115,044
2027	75,000	63,368	138,368
2028	75,000	60,744	135,744
2029	75,000	58,025	133,025
2030	75,000	55,213	130,213
2031	75,000	52,400	127,400
2032	75,000	49,400	124,400
2033	75,000	46,400	121,400
2034	100,000	43,400	143,400
2035	100,000	39,400	139,400
2036	100,000	35,400	135,400
2037	100,000	31,400	131,400
2038	100,000	27,400	127,400
2039	100,000	23,400	123,400
2040	125,000	19,400	144,400
2041	125,000	14,400	139,400
2042	125,000	9,400	134,400
2043	110,000	4,400	114,400
	<u>\$ 2,010,000</u>	<u>\$ 1,193,838</u>	<u>\$ 3,203,838</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October/ April 1	Total
2019	\$	\$ 124,625	\$ 124,625
2020		124,625	124,625
2021	100,000	124,625	224,625
2022	100,000	119,125	219,125
2023	100,000	113,625	213,625
2024	100,000	108,125	208,125
2025	100,000	102,625	202,625
2026	100,000	97,125	197,125
2027	125,000	92,875	217,875
2028	125,000	89,125	214,125
2029	125,000	85,375	210,375
2030	125,000	81,625	206,625
2031	125,000	77,875	202,875
2032	150,000	74,125	224,125
2033	150,000	69,625	219,625
2034	150,000	64,750	214,750
2035	175,000	59,875	234,875
2036	175,000	54,188	229,188
2037	175,000	48,500	223,500
2038	175,000	42,813	217,813
2039	200,000	37,125	237,125
2040	200,000	30,375	230,375
2041	225,000	23,625	248,625
2042	225,000	16,031	241,031
2043	250,000	8,437	258,437
	<u>\$ 3,475,000</u>	<u>\$ 1,870,844</u>	<u>\$ 5,345,844</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

S E R I E S - 2 0 1 8 A R E F U N D I N G

Due During Fiscal Years Ending June 30	Principal Due April 1	Interest Due October/ April 1	Total
2019	\$ 75,000	\$ 79,836	\$ 154,836
2020	80,000	66,181	146,181
2021	85,000	63,781	148,781
2022	90,000	61,231	151,231
2023	85,000	58,531	143,531
2024	90,000	55,981	145,981
2025	95,000	53,281	148,281
2026	95,000	50,431	145,431
2027	100,000	47,581	147,581
2028	105,000	44,581	149,581
2029	110,000	41,431	151,431
2030	115,000	38,131	153,131
2031	115,000	34,681	149,681
2032	120,000	31,088	151,088
2033	125,000	27,188	152,188
2034	130,000	23,125	153,125
2035	135,000	18,900	153,900
2036	140,000	14,513	154,513
2037	145,000	9,788	154,788
2038	145,000	4,895	149,895
2039			
2040			
2041			
2042			
2043			
	<u>\$ 2,180,000</u>	<u>\$ 825,155</u>	<u>\$ 3,005,155</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	125,000	278,817	403,817
2020	130,000	264,162	394,162
2021	235,000	260,638	495,638
2022	240,000	251,338	491,338
2023	235,000	241,762	476,762
2024	240,000	232,212	472,212
2025	245,000	222,512	467,512
2026	245,000	212,600	457,600
2027	300,000	203,824	503,824
2028	305,000	194,450	499,450
2029	310,000	184,831	494,831
2030	315,000	174,969	489,969
2031	315,000	164,956	479,956
2032	345,000	154,613	499,613
2033	350,000	143,213	493,213
2034	380,000	131,275	511,275
2035	410,000	118,175	528,175
2036	415,000	104,101	519,101
2037	420,000	89,688	509,688
2038	420,000	75,108	495,108
2039	300,000	60,525	360,525
2040	325,000	49,775	374,775
2041	350,000	38,025	388,025
2042	350,000	25,431	375,431
2043	360,000	12,837	372,837
	<u>\$ 7,665,000</u>	<u>\$ 3,889,837</u>	<u>\$ 11,554,837</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2018

Description	Original Bonds Issued	Bonds Outstanding July 1, 2017
Harris County Municipal Utility District No. 460 Unlimited Tax Bonds - Series 2011	\$ 2,250,000	\$ 2,080,000
Harris County Municipal Utility District No. 460 Unlimited Tax Road Bonds - Series 2015	2,060,000	2,060,000
Harris County Municipal Utility District No. 460 Unlimited Tax Bonds - Series 2018	3,475,000	
Harris County Municipal Utility District No. 460 Unlimited Tax Refunding Bonds - Series 2018A	<u>2,180,000</u>	
TOTAL	<u><u>\$ 9,965,000</u></u>	<u><u>\$ 4,140,000</u></u>

Bond Authority:	<u>Tax Bonds*</u>	<u>Road Bonds</u>	<u>Recreational Bonds</u>
Amount Authorized by Voters	\$ 77,000,000	\$ 48,000,000	\$ 7,000,000
Amount Issued	<u>5,725,000</u>	<u>\$ 2,060,000</u>	<u>- 0 -</u>
Remaining to be Issued	<u><u>\$ 71,275,000</u></u>	<u><u>\$ 45,940,000</u></u>	<u><u>\$ 7,000,000</u></u>

Debt Service Fund cash and investment balances as of June 30, 2018: \$ 734,517

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 462,193

See Note 3 for interest rate, interest payment dates and maturity dates.

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding June 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 2,080,000	\$ 64,775	\$	Wells Fargo Bank Texas, N.A.
	50,000	75,356	2,010,000	Amegy Bank Houston, Texas
3,475,000		27,694	3,475,000	Amegy Bank Houston, Texas
<u>2,180,000</u>			<u>2,180,000</u>	Amegy Bank Houston, Texas
<u>\$ 5,655,000</u>	<u>\$ 2,130,000</u>	<u>\$ 167,825</u>	<u>\$ 7,665,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 277,047	\$ 194,127	\$ 61,281
Investment Revenues	<u>1,075</u>	<u>546</u>	<u>584</u>
TOTAL REVENUES	<u>\$ 278,122</u>	<u>\$ 194,673</u>	<u>\$ 61,865</u>
EXPENDITURES			
Professional Fees	\$ 148,095	\$ 144,039	\$ 68,346
Contracted Services	7,855	7,766	7,785
Repairs and Maintenance	51,010	55,179	11,079
Other	12,229	11,681	10,388
Capital Outlay	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>\$ 219,189</u>	<u>\$ 218,665</u>	<u>\$ 97,598</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 58,933</u>	<u>\$ (23,992)</u>	<u>\$ (35,733)</u>
OTHER FINANCING SOURCES			
Transfers In	<u>\$ 16,975</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	\$ 75,908	\$ (23,992)	\$ (35,733)
BEGINNING FUND BALANCE	<u>156,431</u>	<u>180,423</u>	<u>216,156</u>
ENDING FUND BALANCE	<u><u>\$ 232,339</u></u>	<u><u>\$ 156,431</u></u>	<u><u>\$ 180,423</u></u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 61,099	\$ 52,545	99.6 %	99.7 %	99.1 %	98.8 %	97.7 %
712	1,263	0.4	0.3	0.9	1.2	2.3
\$ 61,811	\$ 53,808	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 62,907	\$ 49,413	53.2 %	74.0 %	110.5 %	101.8 %	91.8 %
7,673	7,695	2.8	4.0	12.6	12.4	14.3
9,817	9,813	18.3	28.3	17.9	15.9	18.2
8,820	9,215	4.4	6.0	16.8	14.3	17.1
200,885					325.0	
\$ 290,102	\$ 76,136	78.7 %	112.3 %	157.8 %	469.4 %	141.4 %
\$ (228,291)	\$ (22,328)	21.3 %	(12.3) %	(57.8) %	(369.4) %	(41.4) %
\$ -0-	\$ -0-					
\$ (228,291)	\$ (22,328)					
444,447	466,775					
\$ 216,156	\$ 444,447					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 414,130	\$ 282,690	\$ 299,667
Penalty and Interest	31,100	12,626	19,022
Interest on Investments	5,022	1,525	568
Miscellaneous Revenue	10	20	980
Tax Rebate	22,060	16,760	9,196
TOTAL REVENUES	<u>\$ 472,322</u>	<u>\$ 313,621</u>	<u>\$ 329,433</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 36,191	\$ 23,139	\$ 22,207
Debt Service Principal	100,000	45,000	45,000
Debt Service Interest and Fees	168,875	205,706	157,428
Bond Issuance Costs	145,879		
TOTAL EXPENDITURES	<u>\$ 450,945</u>	<u>\$ 273,845</u>	<u>\$ 224,635</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 21,377</u>	<u>\$ 39,776</u>	<u>\$ 104,798</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 53,119	\$	\$
Long-Term Debt Issued	93,469		150,712
Refunding Bonds	2,180,000		
Payment to Refunded Bond Escrow Agent	(2,092,275)		
Bond Premium	12,121		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 246,434</u>	<u>\$ - 0 -</u>	<u>\$ 150,712</u>
NET CHANGE IN FUND BALANCE	\$ 267,811	\$ 39,776	\$ 255,510
BEGINNING FUND BALANCE	<u>463,244</u>	<u>423,468</u>	<u>\$ 167,958</u>
ENDING FUND BALANCE	<u>\$ 731,055</u>	<u>\$ 463,244</u>	<u>\$ 423,468</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 231,371	\$ 148,830	87.6 %	90.2 %	90.9 %	80.5 %	81.8 %
49,524	27,084	6.6	4.0	5.8	17.2	14.9
274	200	1.1	0.5	0.2	0.1	0.1
				0.3		
<u>6,199</u>	<u>5,820</u>	<u>4.7</u>	<u>5.3</u>	<u>2.8</u>	<u>2.2</u>	<u>3.2</u>
<u>\$ 287,368</u>	<u>\$ 181,934</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>	<u>100.0</u>
\$ 30,911	\$ 19,935	7.7 %	7.4 %	6.7 %	10.8 %	11.0 %
40,000	40,000	21.2	14.3	13.7	13.9	22.0
134,100	136,100	35.7	65.6	47.8	46.7	74.8
		<u>30.9</u>				
<u>\$ 205,011</u>	<u>\$ 196,035</u>	<u>95.5 %</u>	<u>87.3 %</u>	<u>68.2 %</u>	<u>71.4 %</u>	<u>107.8 %</u>
<u>\$ 82,357</u>	<u>\$ (14,101)</u>	<u>4.5 %</u>	<u>12.7 %</u>	<u>31.8 %</u>	<u>28.6 %</u>	<u>(7.8) %</u>
\$	\$					
<u>\$ -0-</u>	<u>\$ -0-</u>					
\$ 82,357	\$ (14,101)					
<u>\$ 85,601</u>	<u>\$ 99,702</u>					
<u>\$ 167,958</u>	<u>\$ 85,601</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018

District Mailing Address - Harris County Municipal Utility District No. 460
c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP
1980 Post Oak Blvd., Suite 1380
Houston, TX 77056

District Telephone Number - (713) 850-9000

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>June 30, 2018</u>	Expense Reimbursements for the year ended <u>June 30, 2018</u>	<u>Title</u>
Donald Wayne Middleton	05/18 05/22 (Elected)	\$ 1,650	\$ -0-	President
Cherrise Traylor	05/18 05/22 (Elected)	\$ 1,200	\$ 22	Vice President
Evan Hughes	05/16 05/20 (Elected)	\$ 1,050	\$ 19	Secretary
John A. Gonzales	05/16 05/20 (Elected)	\$ 1,050	\$ -0-	Assistant Secretary
Jonathan J. Gonzalez	07/18 05/22 (Appointed)	\$ -0-	\$ -0-	Assistant Secretary
Chelsea Florack	05/15 03/18 (Appointed)	\$ 1,050	\$ 94	Former Director

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, or with the District's developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):
July 18, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on March 13, 2006. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 460
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2018

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2018</u>	<u>Title</u>
Sanford Kuhl Hagan Kugle Parker Kahn LLP	03/03/10	\$ 65,746 \$ 128,370 \$ 14,140	General Counsel Bond Counsel Delinquent Tax Attorney
McCall Gibson Swedlund Barfoot PLLC	06/23/10	\$ 10,750 \$ 9,550	Auditor Bond Related
L&S District Services, LLC	05/22/06	\$ 7,855 \$ 1,700	Bookkeeper Bond Related
LJA Engineering & Surveying, Inc.	11/09/11	\$ 24,230 \$ 38,081	Engineer Bond Related
The GMS Group, L.L.C.	03/13/06	\$ 106,345	Financial Advisor
Utility Tax Service, LLC	04/10/07	\$ 10,050	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

PHOTOGRAPHS TAKEN IN THE DISTRICT







APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN