

OFFICIAL STATEMENT DATED DECEMBER 11, 2018

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

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

NEW ISSUE-Book-Entry Only

Insured Rating (AGM): S&P "AA" (stable outlook)
 Moody's "A2" (stable outlook)
 Underlying Rating: Moody's "Baa3"
 See "MUNICIPAL BOND RATING" and
 "MUNICIPAL BOND INSURANCE" herein

\$4,000,000

**HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 161
 (A political subdivision of the State of Texas located within Harris County)
 UNLIMITED TAX BONDS
 SERIES 2018A**

The bonds described above (the "Bonds") are obligations solely of Harris County Water Control and Improvement District No. 161 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

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

Dated: December 1, 2018

Due: September 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar" or "Paying Agent") upon surrender of the Bonds for payment. Interest on the Bonds accrues from December 1, 2018, and is payable each March 1 and September 1, commencing March 1, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

Due	Principal	CUSIP	Interest	Initial	Due	Principal	CUSIP	Interest	Initial
<u>September 1</u>	<u>Amount</u>	<u>Number (b)</u>	<u>Rate</u>	<u>Reoffering Yield (c)</u>	<u>September 1</u>	<u>Amount</u>	<u>Number (b)</u>	<u>Rate</u>	<u>Reoffering Yield (c)</u>
2020	\$ 130,000	41453T DD1	3.500 %	2.050 %	2028	\$ 130,000 (a)	41453T DM1	3.000 %	3.300 %
2021	130,000	41453T DE9	3.500	2.200	2029	140,000 (a)	41453T DN9	3.250	3.450
2022	130,000	41453T DF6	3.250	2.400	2030	140,000 (a)	41453T DP4	3.375	3.600
2023	130,000	41453T DG4	3.500	2.550	2031	140,000 (a)	41453T DQ2	3.500	3.700
2024	130,000	41453T DH2	4.000	2.700	2032	140,000 (a)	41453T DR0	3.500	3.800
2025	130,000	41453T DJ8	4.000	2.850	2033	140,000 (a)	41453T DS8	3.625	3.900
2026	130,000 (a)	41453T DK5	3.000	3.000	2034	140,000 (a)	41453T DT6	3.750	3.950
2027	130,000 (a)	41453T DL3	3.000	3.150					

\$800,000 Term Bonds due September 1, 2039 (a), 41453T DY5 (b), 3.750% Interest Rate, 4.000% Yield (c)
 \$350,000 Term Bonds due September 1, 2041 (a), 41453T EA6 (b), 4.000% Interest Rate, 4.010% Yield (c)
 \$395,000 Term Bonds due September 1, 2043 (a), 41453T EC2 (b), 4.000% Interest Rate, 4.020% Yield (c)
 \$445,000 Term Bonds due September 1, 2045 (a), 41453T EE8 (b), 4.000% Interest Rate, 4.030% Yield (c)

- (a) Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about December 28, 2018.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 upon payment of the costs of duplication therefor.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

Description...

Harris County Water Control and Improvement District No. 161 (the “District”) is a political subdivision of the State of Texas, created by a special act of the Texas Legislature pursuant to Texas Special District Local Laws Code, Chapter 9047, Chapter 624, 2013 Regular Session, dated June 14, 2013. The District operates pursuant to Chapters 49 and 51 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution. The District consists of approximately 412 acres of land. See “THE DISTRICT.”

Location...

The District is located approximately 18 miles southeast of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the city limits of the City of Houston (the “City”) and within the boundaries of the Clear Creek Independent School District. The District is located southeast of Beltway 8 and northeast of Interstate 45. The District is bordered by Clear Lake City Boulevard, and El Dorado Boulevard transverses the District. See “THE DISTRICT—Description and Location.”

The Developers...

The developer of the Reserve at Clear Lake is Trendmaker Clear Lake LLC, a Texas limited liability company (“Trendmaker”) whose sole member is Trendmaker Homes, Inc. Trendmaker Homes, Inc. is a part of the Tri-Pointe Group, Inc., which is a publicly traded company on the NYSE. Trendmaker is referred to herein as the “Developer.” See “THE DEVELOPER.”

The developer of Clear Lake Marketplace and Clear Lake Shoppes at the Reserve is Clear Dorado Land Associates, L.P., a Texas limited liability partnership (“Clear Dorado”).

Trendmaker and Clear Dorado are collectively referred to herein as the “Developers.”

Recent Extreme Weather Events; Hurricane Harvey...

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

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to LJA Engineering, Inc. (the “Engineer”), the water and wastewater system serving the District sustained no material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the Engineer and the Developers, no homes or commercial businesses within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Status of Development...

Development in the District currently consists of the Reserve at Clear Lake Sections One through Thirteen totaling 645 completed single-family residential lots on approximately 197 acres. As of October 1, 2018, there were 364 homes completed and occupied in the District, 131 homes under construction and 150 developed lots available for home construction. Trendmaker Homes, Village Builders and CalAtlantic Homes are building homes that range in sales price from approximately \$330,000 to \$650,000. See “THE DISTRICT – Homebuilding.”

Water, Sewer and Drainage to serve Reserve at Clear Lake Section Fourteen (62 lots on approximately 17 acres) and Reserve at Clear Lake Section Fifteen (36 lots on approximately 13 acres) is currently under construction and lots are expected to be available for home construction by November, 2018 and January, 2019, respectively.

Clear Lake Marketplace (consisting of approximately 12 acres) has been developed for commercial and retail business. An approximately 106,000 square foot HEB Grocery Store (“HEB”) has been constructed on approximately 11 acres of land within the Clear Lake Marketplace and opened in February, 2016. An additional 103,000 square feet of commercial space has been constructed as a part of Clear Lake Marketplace. Clear Lake Shoppes at the Reserve has been constructed on approximately 6 acres of land and includes commercial and retail businesses totaling approximately 60,000 square feet. Businesses that are complete and open in Clear Lake Marketplace and Clear Lake Shoppes at the Reserve include: Nails of America, SH Salon, Famous Footwear, Petsmart, Marco’s Pizza, Milano Nail Spa, Emler Swim School and Akashi Fusion Asian & Sushi Wine Bar.

There are 13 acres in the District which remain to be developed and approximately 154 acres in the District that are not developable, including major streets, pipeline easements, plant sites, detention, drill sites, recreational sites, a fire station site, lift stations and open space. See “THE DISTRICT—Land Use—Status of Development.”

Facilities...

Pursuant to the Exclusion Contract between the District and the Clear Lake Water Authority (the “CLCWA”), the District receives water and sanitary sewer services from the CLCWA. Pursuant to such Contract, rates charged by the CLCWA to District customers are in an amount not to exceed one and a half times the cost charged to customers of the CLCWA. The CLCWA also charges District customers a \$10 per month operations fee. The District is required to pay a pro-rata share of the CLCWA’s debt service requirements and to levy a contract maintenance tax at the rate of \$0.05 per \$100 assessed valuation on all property in the District which is paid to the CLCWA. See “THE DISTRICT – Exclusion Contract with Clear Lake City Water Authority.”

Payment Record...

The District has previously issued two series of unlimited tax bonds for purchasing and constructing water, wastewater and/or storm drainage facilities, of which \$11,165,000 principal amount of such bonds is currently outstanding, and one series of unlimited tax road bonds for roads and related improvements, of which \$3,705,000 is currently outstanding (the “Outstanding Bonds”). The District has timely paid its debt service on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED).”

THE BONDS

Description...

The \$4,000,000 Unlimited Tax Bonds, Series 2018A (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in the years 2020 through 2034, both inclusive, and as term bonds on September 1 in each of the years 2039, 2041, 2043 and 2045 (the “Term Bonds”) in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from December 1, 2018, and is payable March 1, 2019, and each September 1 and March 1 thereafter, until the earlier of maturity or prior redemption. See “THE BONDS.”

<i>Book-Entry-Only System...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to finance the Construction Costs shown under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to pay interest on funds advanced by the Developers on behalf of the District, and pay certain other costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.”
<i>Authority for Issuance...</i>	The Bonds are the third series of bonds issued out of an aggregate of \$225,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities and for refunding of such bonds. The Bonds are issued by the District pursuant to an Order of the Texas Commission on Environmental Quality (the “TCEQ”) the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 51 of the Texas Water Code and the general laws of the State of Texas. See “THE BONDS—Authority for Issuance—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of 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 ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”). Moody’s has also assigned an underlying rating of “Baa3” to the Bonds. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel...</i>	McCall Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$173,863,150	(a)
Estimated Taxable Assessed Valuation as of September 1, 2018	\$233,354,134	(b)
Gross Direct Debt Outstanding	\$18,870,000	
Estimated Overlapping Debt	<u>11,123,377</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$29,993,377	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation	10.85%	
Estimated Taxable Assessed Valuation as of September 1, 2018	8.09%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	17.25%	
Estimated Taxable Assessed Valuation as of September 1, 2018	12.85%	
Debt Service Funds Available as of November 15, 2018:		
Water, Sewer and Drainage Debt Service Fund	\$610,983	
Road Debt Service Fund.....	<u>\$78,493</u>	
Total Debt Service Funds	\$689,476	(d)
Operating Funds Available as of November 15, 2018	\$349,564	
Capital Projects Funds Available as of November 15, 2018	\$342,028	
Capital Projects Road Funds Available as of November 15, 2018.....	\$36,040	
2018 Debt Service Tax Rate.....	\$0.59	
2018 Maintenance Tax Rate.....	0.21	
2018 Contract Maintenance Tax Rate	<u>0.05</u>	(e)
2018 Total Tax Rate.....	\$0.85	(f)
Average Annual Debt Service Requirement (2019-2045).....	\$1,084,347	(g)
Maximum Annual Debt Service Requirement (2021).....	\$1,238,181	(g)
Tax Rates Required to Pay Average Annual Debt Service (2019-2045) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation	\$0.66	
Based upon Estimated Taxable Assessed Valuation as of September 1, 2018.....	\$0.49	
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.75	
Based upon Estimated Taxable Assessed Valuation as of September 1, 2018.....	\$0.56	
Status of Development as of October 1, 2018 (h):		
Homes Completed.....	364	
Homes Under Construction.....	131	
Lots Available for Home Construction	150	
Lots Under Construction	133	
Estimated Population	1,211	(i)

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- (a) Assessed value includes \$168,019,367 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$5,843,783 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2018, which totals \$173,863,150. See "TAX PROCEDURES."
 - (b) As estimated by the Appraisal District as of September 1, 2018 for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the basis for any tax levy by the District. The certified 2018 taxable assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to September 1, 2018. The ultimate Assessed Valuation of any improvements from January 1, 2018 through September 1, 2018 will be placed on the District's 2019 tax roll and may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof. See "TAXING PROCEDURES."
 - (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
 - (d) Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the District's bonds issued for water, sewer, and drainage facilities (including the Bonds) and are not available to pay debt service on the District's bonds for road facilities. Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Road Debt Service Fund.
 - (e) The District levies a \$0.05 contract maintenance tax rate that is paid to the Clear Lake Water Authority for operation and maintenance costs. See "THE DISTRICT—Exclusion Contract with the Clear Lake Water Authority."
 - (f) Property owners in the District also pay taxes to the City of Houston. The City of Houston's 2017 tax rate is \$0.58421.
 - (g) See "DEBT SERVICE REQUIREMENTS."
 - (h) See "THE DISTRICT—Land Use—Status of Development."
 - (i) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$4,000,000

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 161

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

UNLIMITED TAX BONDS

SERIES 2018A

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Water Control and Improvement District No. 161 (the "District") of its \$4,000,000 Unlimited Tax Bonds, Series 2018A (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 51 of the Texas Water Code, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission") and an election held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Trendmaker Clear Lake LLC, Clear Dorado Land Associates, L.P. and development activity in the District. Trendmaker Clear Lake LLC ("Trendmaker") and Clear Dorado Land Associates L.P. ("Clear Dorado") are collectively referred to herein as the "Developers." All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated and accrue interest from December 1, 2018, with interest payable each March 1 and September 1, beginning March 1, 2019 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

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

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

Source of Payment

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

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

Funds

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

Accrued interest on the Bonds shall be deposited into the Water, Sewer and Drainage Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose of reimbursing the Developers for certain construction costs, and paying interest on such reimbursement and for paying the costs of issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM”.

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2039, 2041, 2043 and 2045 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced, at the option of the District, by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$800,000 Term Bonds		\$350,000 Term Bonds		\$395,000 Term Bonds		\$445,000 Term Bonds	
Due September 1, 2039		Due September 1, 2041		Due September 1, 2043		Due September 1, 2045	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2035	\$ 150,000	2040	\$ 175,000	2042	\$ 175,000	2044	\$ 220,000
2036	150,000	2041 (maturity)	175,000	2043 (maturity)	220,000	2045 (maturity)	225,000
2037	150,000						
2038	175,000						
2039 (maturity)	175,000						

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

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on September 1, 2025, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption.

When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At a bond election held within the District on November 4, 2014, voters of the District have authorized the issuance of \$225,000,000 principal amount of unlimited tax bonds for purchasing and constructing water, wastewater and storm drainage facilities and refunding of such bonds, and the Bonds are being issued pursuant to such authorization. See "Issuance of Additional Debt" below.

The TCEQ approved the sale of the Bonds, subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BONDS PROCEEDS."

The Bonds are issued by the District pursuant to an Order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 51 of the Texas Water Code, the general laws of the State of Texas and an election held within the District.

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution. While the Bonds are in the Book-Entry-Only System, the Bonds will be registered in the name of Cede & Co. and will not be transferable. See "BOOK-ENTRY-ONLY SYSTEM."

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

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

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on the 15th calendar day of the month next preceding an Interest Payment Date and ending on the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

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

Lost, Stolen or Destroyed Bonds

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

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

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District may issue additional bonds necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$225,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and storm drainage facilities and refunding of such bonds, \$22,300,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing park and recreational facilities and refunding of such bonds, and \$100,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing roads and related improvements and refunding of such bonds. After issuance of the Bonds, \$209,740,000 principal amount of unlimited tax bonds for water, wastewater and storm drainage facilities and refunding of such bonds will remain authorized but unissued, all of the authorized bonds for park and recreational facilities and refunding of such bonds will remain authorized but unissued and \$96,795,000 principal amount of unlimited tax bonds for roads and related improvements and refunding of such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. After the payment from the sale of the Bonds, the Developers will have expended approximately \$12,090,000 (as of September, 2018) for design, construction, engineering and acquisition of the District water, wastewater and storm drainage facilities, approximately \$7,214,000 for parks and recreational facilities and approximately \$4,420,000 for roads and related improvements for which they have not been reimbursed. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize firefighting activities at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Dissolution

Under existing Texas law, since the District lies wholly within the corporate limits of the City, the District may be dissolved by the City, without the District's consent, subject to compliance by the City with Chapter 43 of the Texas Local Government Code, as amended. If the District is dissolved, the City must assume the District's assets and obligations (including the Bonds) and abolish the District. Dissolution of the District by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever dissolve the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should dissolution occur.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a

judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, 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, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by LJA Engineering, Inc., the District's engineer (the "Engineer"). A portion of the proceeds from the sale of the Bonds will be used to pay certain non-construction costs associated with the issuance of the Bonds. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC. (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District's auditor. The estimated use and distribution of Bond proceeds is shown below.

I. CONSTRUCTION COSTS

Lift Station No. 2.....	\$	594,724
Reserve Section 2 WS&D.....		943,662
Reserve Section 3 WS&D.....		569,216
Sunrise Lake Drive WS&D and PAV.....		119,262
Travis Heights Lane Extension.....		191,075
Engineering.....		387,959
Construction Testing.....		35,350
Storm Water Pollution Prevention.....		96,167
Lift Station Facility Land Cost.....		6,663
Water and Wastewater Impact Fees.....		584,802
Surplus Funds from Bond Issue No. 1.....		(320,000)
Total Construction Costs.....	\$	3,208,880

II. NON-CONSTRUCTION COSTS

Legal Fees.....	\$	115,000
Financial Advisory Fees.....		77,500
Developer Interest.....		371,734
Operating Advance.....		9,000
Underwriter's Discount.....		119,987
Bond Issuance Expenses.....		38,886
Bond Application Report.....		45,000
Attorney General Fee.....		4,000
TCEQ Bond Issue Fee (0.25%).....		10,000
Contingency (a).....		13
Total Non-Construction Costs.....	\$	791,120

TOTAL BOND ISSUE REQUIREMENT **\$ 4,000,000**

(a) Represents surplus funds resulting from the sale of the Bonds at a lower discount than estimated and can be used for purposes allowed and approved by the TCEQ.

THE DISTRICT

General

The District is a water control and improvement district created by a special act of the Texas Legislature pursuant to Senate Bill 1841, Acts of the 83rd Legislature of Texas 2013 Regular Session, dated June 14, 2013. The District operates pursuant to Texas Special District Local Laws Code Chapter 9047, Chapters 49 and 51 of the Texas Water Code, Article XVI, Section 59 of the Texas Constitution and Article 717r, Vernon's Civil Statutes. The District consists of approximately 412 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the provision of parks and recreational facilities. The District is also empowered to construct thoroughfare, arterial and collector roads and improvements in aid thereof. (All of such District water, wastewater and drainage facilities are referred to herein as "District Facilities.") The District may issue bonds and other forms of indebtedness to purchase or construct all of such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts after approval by the TCEQ and the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District, pursuant to the City's resolution consenting to the creation of the District (the "City's Consent Resolution"), is required to observe certain requirements of the City which (1) limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road, and fire-fighting facilities, (2) limit the net effective interest rate on such bonds and other terms of such bonds, (3) require approval by the City of District construction plans (except for park/recreational facilities), and (4) permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of facilities constructed by the District is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Exclusion Contract with Clear Lake City Water Authority

The District entered into an Exclusion Contract (the "Exclusion Contract") with the Clear Lake City Water Authority (the "CLCWA") dated December 1, 2014 pursuant to which the CLCWA provides water, sanitary sewer and drainage services to the District. The CLCWA charges District customers for water and sewer service at a rate which shall not exceed one and a half times the rates charged to customers of the CLCWA for similar services. District customers are also charged a \$10 per month operations fee by the CLCWA.

The Exclusion Contract also requires the District to pay a pro-rata share of the CLCWA's debt service requirements (the "Allocable Debt") on the CLCWA's outstanding debt issued for water supply, sanitary sewer treatment, and drainage facilities to serve the CLCWA. The Allocable Debt is calculated by multiplying the total outstanding indebtedness of the CLCWA annually as of the date of the Exclusion Contract by .09782% and as specified in the Exclusion Contract is for the period 2018 to 2038 and the total remaining is \$77,901.21.

The Exclusion Contract also requires the District to levy a contract maintenance tax in the amount of \$0.05 per \$100 assessed valuation to pay for operating and maintenance costs incurred by the CLCWA which the District is levying in a contract maintenance tax.

Description and Location

The District is located approximately 18 miles southeast of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the city limits of the City of Houston (the "City") and within the boundaries of the Clear Creek Independent School District. The District is located southeast of Beltway 8 and northeast of Interstate 45. The District is bordered by Clear Lake City Boulevard, and El Dorado Boulevard transverses the District. See "AERIAL LOCATION MAP."

Status of Development

Development in the District currently consists of the Reserve at Clear Lake Sections One through Thirteen, totaling 645 completed single-family residential lots on approximately 197 acres. As of October 1, 2018, there were 364 homes completed and occupied in the District, 131 homes under construction and 150 developed lots available for home construction.

Water, Sewer and Drainage to serve Reserve at Clear Lake Section Fourteen (62 lots on approximately 17 acres) and Reserve at Clear Lake Section Fifteen (36 lots on approximately 13 acres) is currently under construction and lots are expected to be available for home construction by November, 2018 and January, 2019, respectively.

Homebuilding

Trendmaker Homes, Village Builders and CalAtlantic Homes are building homes in the Reserve at Clear Lake Sections Two through Five, and Eight through Eleven, that range in sales price from approximately \$330,000 to \$650,000.

Commercial Development

Clear Lake Marketplace (consisting of approximately 12 acres) has been developed for commercial and retail business. An approximately 106,000 square foot HEB Grocery Store (HEB”) has been constructed on approximately 11 acres of land within the Clear Lake Marketplace and opened in February, 2016. An additional 103,000 square feet of retail space has been constructed as part of Clear Lake Marketplace. Clear Lake Shoppes at the Reserve has been constructed on approximately 6 acres of land and includes commercial and retail businesses totaling approximately 60,000 square feet. Businesses that are complete and open in Clear Lake Marketplace and Clear Lake Shoppes at the Reserve include: Nails of America, SH Salon, Famous Footwear, Petsmart, Marco’s Pizza, Milano Nail Spa, Emler Swim School and Akashi Fusion Asian & Sushi Wine Bar..

Future Development

There are 13 acres in the District which remain to be developed and approximately 154 acres in the District that are not developable, including major streets, pipeline easements, plant sites, detention, drill sites, recreational sites, a fire station site, lift stations and open space.

The Engineer has stated that under current development plans, the remaining authorized but unissued bonds for water, wastewater and storm drainage facilities (\$209,740,000), road facilities (\$96,795,000) and constructing park and recreational facilities (\$22,300,000) should be sufficient to finance the construction of facilities to complete the District's water, sewer and drainage system, roads, and recreational facilities for full development of the District.

THE DEVELOPER

Role of a Developer

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

Neither of the Developers nor any of their affiliates, are obligated to pay principal of or interest on the Bonds. Furthermore, neither of the Developers has a binding commitment to the District to carry out any plan of development and the Developers may sell or otherwise dispose of their property within the District, or any other assets, at any time, and the furnishing of information relating to the proposed development by the Developers should not be interpreted as such a commitment. Prospective Bond purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the District. See “INVESTMENT CONSIDERATIONS.”

Prospective Bond purchasers should note that any prior real estate experience discussed below of the Developers should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See “INVESTMENT CONSIDERATIONS.”

Trendmaker Clear Lake, LLC

The developer of the Reserve at Clear Lake is Trendmaker Clear Lake LLC (“Trendmaker”), a Texas limited liability company, whose sole member is Trendmaker Homes, Inc. Trendmaker Homes, Inc. is a part of the Tri-Pointe Group, Inc., which is a publicly traded company on the NYSE. Trendmaker initially financed its acquisition and development of the Reserve at Clear Lake through a land bank, but more recently has financed the development with cash.

Clear Dorado Land Associates, L.P.

Clear Dorado Land Associates, L.P., a Texas limited partnership whose general partner is Clear Dorado Land Associates GP, LLC (“Clear Dorado”), is developing approximately 40 acres of commercial property in the District as Clear Lake Marketplace and Clear Lake Shoppes at the Reserve.

Economic Development Agreement

In addition to Trendmaker’s and Clear Dorado’s agreements with the District for reimbursement of water, sewer, drainage, recreation and road facilities constructed on behalf of the District, Trendmaker and Clear Dorado have also entered into separate Economic Development Agreements with the City, pursuant to which both Trendmaker and Clear Dorado will receive reimbursement for certain public improvements, as specified in each Economic Development Agreement, in exchange for the creation of ad valorem tax and sales tax revenue from the Reserve at Clear Lake and the Clear Lake Marketplace developments, respectively. The District is not a party to the Economic Development Agreements.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. All of the directors own land within the District subject to a note and deed of trust in favor of Trendmaker. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Mueller	President	May 2020
Heath Melton	Vice President	May 2022
Jeff Safe	Secretary	May 2020
Tim Morrow	Assistant Vice President	May 2022
Katy Walston	Assistant Secretary	May 2022

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Masterson Advisors LLC serves as the District’s Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The District's financial statements for the year ended February 28, 2018, were audited by McGrath & Co., PLLC. See “APPENDIX A” for a copy of the District's February 28, 2018 financial statements.

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

Bookkeeper: The District has contracted with F Matuska Inc. (the “Bookkeeper”) for bookkeeping services.

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Thomas W. Lee of Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

ROAD FACILITIES

The District has road powers that allow the District to build and finance roads and related improvements within the District. Proceeds from previously issued bonds were used to reimburse Trendmaker for costs expended on District roads and related improvements. The roads are maintained by the City of Houston.

THE SYSTEM

Water Supply: The District receives its water supply from Clear Lake City Water Authority (the “CLCWA”) pursuant to the Exclusion Contract with the CLCWA. See “THE DISTRICT –Exclusion Contract with Clear Lake City Water Authority.” The CLCWA obtains approximately ten percent of its potable water from eight existing water wells. These wells are used primarily to assist meeting peak water demands. The CLCWA wells are permitted by the Harris-Galveston Subsidence District with an aggregate permitted flow of 284.9 million gallons for calendar year 2018. The CLCWA joined with the City of Houston and other political entities to construct the Southeast Water Purification Plant (SEWPP). The CLCWA currently owns 20.45 million gallons per day (“MGD”) peak daily capacity and 32 MGD of peak hourly capacity in the SEWPP. Treated surface water is the prime source of potable water for the CLCWA, and thus, the District. The CLCWA has the right to purchase additional capacity in future plant expansions or unused capacity from other participants.

The CLCWA is able to receive water from the SEWPP at system pressure during periods of lower demand. During periods of high demand the CLCWA receives water and re-pumps it at a higher operating pressure. The CLCWA has two normally closed emergency water interconnects — one with the City of Nassau Bay and one with Johnson Space Center. Neither of the interconnects is within the District’s boundaries. In addition to the emergency water interconnects, the CLCWA has sufficient well capacity to supply its customers under water restrictions if there is a temporary interruption of service from the SEWPP.

The District's portion of the CLCWA's water supply is capable of serving 994 equivalent single-family connections (“ESFCs”).

Wastewater Treatment: The District receives wastewater treatment from the CLCWA. The CLCWA currently owns 9.1 MGD of capacity in a 10.0 MGD Plant. Johnson Space Center owns the remaining 0.9 MGD. The CLCWA currently has a capacity of 30,333 equivalent single-family connections (based on average daily flow of 300 gpd). The District's portion of the CLCWA's wastewater capacity is capable of serving 994 ESFCs.

Storm Water Drainage Facilities and Flood Plain

Stormwater is collected through curb and gutter streets to an underground system of lines that outfalls to various detention ponds, which outfall to Horsepen Bayou, which flows into Armand Bayou, which flows into the Gulf of Mexico.

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to current standards at the time. According to the District’s Engineer, no areas in the District are located in the official 100-year floodplain.

Subsidence and Conversion to Surface Water Supply

The CLCWA is within the Harris-Galveston Coastal Subsidence District (the “Subsidence District”) which regulates the withdrawal of groundwater within its jurisdiction. The CLCWA’s authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan, as amended (the “1999 Plan”) to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District’s jurisdiction. Under the 1999 Plan, the CLCWA’s groundwater withdrawals must comprise no more than 10% of the CLCWA’s total annual water demand. Beginning in January 2001, a disincentive fee was applied to any groundwater withdrawn that constitutes greater than 10% of the CLCWA’s total annual water demand. The CLCWA is in compliance with the 1999 Plan. The District is included in the CLCWA groundwater reduction plan.

Regulation

Construction and operation of the District facilities serving the District as they now exist or as they may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County and the City also exercise regulatory jurisdiction over the District Facilities.

According to the Engineer, the District's improvements that will be financed with proceeds of the Bonds, have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the City of Houston, where applicable.

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FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2018 Certified Taxable Assessed Valuation.....	\$173,863,150	(a)
Estimated Taxable Assessed Valuation as of September 1, 2018	\$233,354,134	(b)
Gross Direct Debt Outstanding	\$18,870,000	
Estimated Overlapping Debt	<u>11,123,377</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$29,993,377	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation	10.85%	
Estimated Taxable Assessed Valuation as of September 1, 2018	8.09%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	17.25%	
Estimated Taxable Assessed Valuation as of September 1, 2018	12.85%	
Debt Service Funds Available as of November 15, 2018:		
Water, Sewer and Drainage Debt Service Fund	\$610,983	
Road Debt Service Fund.....	<u>\$78,493</u>	
Total Debt Service Funds	\$689,476	(d)
Operating Funds Available as of November 15, 2018	\$349,564	
Capital Projects Funds Available as of November 15, 2018	\$342,028	
Capital Projects Road Funds Available as of November 15, 2018.....	\$36,040	

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- (a) Assessed value includes \$168,019,367 of taxable value as certified by the Harris County Appraisal District (the "Appraisal District") and \$5,843,783 of uncertified value, representing the owner's opinion of value on properties in the District not yet certified for 2018, which totals \$173,863,150. See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of September 1, 2018 for information purposes only. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, this estimate will not be the bases for any tax levy by the District. The certified 2018 taxable assessed valuation provided by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to September 1, 2018. The ultimate Assessed Valuation of any improvements from January 1, 2018 through January 31, 2018 will be placed on the District's 2019 tax roll and may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof. See "TAXING PROCEDURES."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (d) Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the District's bonds issued for water, sewer, and drainage facilities (including the Bonds) and are not available to pay debt service on the District's bonds for road facilities. Neither Texas law nor the Bond Resolution requires the District to maintain any minimum balance in the Road Debt Service Fund.

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 2,050,758,022	10/31/2018	0.04%	\$ 820,303
City of Houston.....	3,787,020,000	10/31/2018	0.07%	2,650,914
Harris Co Dept of Educ.....	6,555,000	10/31/2018	0.04%	2,622
Harris Co Flood Control Dist.....	83,075,000	10/31/2018	0.04%	33,230
Port of Houston Authority	593,754,397	10/31/2018	0.04%	237,502
Harris Co Hospital Dist	59,490,000	10/31/2018	0.04%	23,796
Clear Creek Independent School District	942,950,000	10/31/2018	0.78%	7,355,010
Total Estimated Overlapping Debt.....				\$ 11,123,377
The District's Total Direct Debt (a).....				18,870,000
Total Direct and Estimated Overlapping Debt.....				\$ 29,993,377
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation of \$173,863,150.....				17.25%
Estimated Taxable Assessed Valuation as of September 1, 2018 of \$233,354,134.....				12.85%

(a) Includes the Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the taxes levied by the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities, certain taxing jurisdictions are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a summary of taxes levied for the 2018 tax year by all taxing jurisdictions overlapping the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

<u>Overlapping Entity</u>	<u>2018 Tax Rate per \$100 Assessed Valuation</u>
Harris County (a)	\$ 0.63517
Clear Creek ISD	1.40000
City of Houston	0.58831
The District (b)	0.85000
Total Overlapping Tax Rate	\$ 3.47348

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

(b) The District has levied a total 2018 tax rate of \$0.85 per \$100 assessed valuation, comprised of \$0.21 per \$100 assessed valuation for maintenance, \$0.59 per \$100 assessed valuation for debt service and \$0.05 per \$100 assessed valuation as a contract maintenance tax paid to the CLCWA

DISTRICT OPERATIONS

General

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. Net revenues, if any, derived from the District's operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any revenues will be available for the payment of debt service on the Bonds.

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the years ended February 28, 2016 through February 28, 2018 and an unaudited summary for the period ended August 31, 2018, prepared by the Bookkeeper. Reference is made to such records and statements for further and more complete information.

	Unaudited March 1, 2018 thru August 31, 2018(a)	Fiscal Year Ended February 28		
		2018	2017	2016
Revenues				
Utility Service (b)	\$22,552	\$418,568	\$251,685	\$21,292
Property Taxes	130,409	468,710	390,087	82,380
Penalties and interest	0	0	675	120
Tap Connection and inspection (c)	0	301,193	236,107	347,031
Miscellaneous	0	15,545	11,655	11,669
Investment earnings	1,684	416	36	10
Total Revenues	\$154,645	\$1,204,432	\$890,245	\$462,502
Expenditures				
Purchased Services	\$30,047	\$306,403	\$179,442	\$19,560
Professional Fees	54,152	82,009	86,270	86,768
Contracted Services	5,500	374,279	342,637	368,427
Repairs and maintenance	51,520	86,559	40,880	13,575
Utilities	2,452	3,485	2,474	1,902
Administrative	5,613	33,873	17,410	16,320
Other	349	16,692	13,619	11,958
Intergovernmental Contractual Obligation (d)	8,993	77,235	43,255	14,817
Total Expenditures	\$158,626	\$980,535	\$725,987	\$533,327
Revenues Over (Under) Expenditures	(\$3,981)	\$223,897	\$164,258	(\$70,825)
Developer Advances			\$79,000	\$90,000
Interfund transfers				
Fund Balance (Beginning of Year)	\$ 471,172	\$ 247,275	\$ 4,017	\$ (15,158)
Fund Balance (End of Year)	\$ 471,172	\$471,172	\$247,275	\$4,017

(a) Unaudited; provided by the District's bookkeeper.

(b) Represents fees collected by the CLCWA that exceed the CLCWA charges and are rebated to the District.

(c) Tap revenues are CLCWA allocable debt expense

(d) See "THE DISTRICT—Exclusion Contract with Clear Lake City Water Authority."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2019	\$ 854,956		\$ 110,231	\$ 110,231	\$ 965,188
2020	868,056	\$ 130,000	146,975	276,975	1,145,031
2021	965,756	130,000	142,425	272,425	1,238,181
2022	957,856	130,000	137,875	267,875	1,225,731
2023	946,681	130,000	133,650	263,650	1,210,331
2024	939,781	130,000	129,100	259,100	1,198,881
2025	927,581	130,000	123,900	253,900	1,181,481
2026	915,231	130,000	118,700	248,700	1,163,931
2027	910,231	130,000	114,800	244,800	1,155,031
2028	904,931	130,000	110,900	240,900	1,145,831
2029	894,006	140,000	107,000	247,000	1,141,006
2030	887,400	140,000	102,450	242,450	1,129,850
2031	879,938	140,000	97,725	237,725	1,117,663
2032	871,344	140,000	92,825	232,825	1,104,169
2033	862,413	140,000	87,925	227,925	1,090,338
2034	852,888	140,000	82,850	222,850	1,075,738
2035	842,688	150,000	77,600	227,600	1,070,288
2036	837,013	150,000	71,975	221,975	1,058,988
2037	825,188	150,000	66,350	216,350	1,041,538
2038	817,875	175,000	60,725	235,725	1,053,600
2039	805,019	175,000	54,163	229,163	1,034,181
2040	796,675	175,000	47,600	222,600	1,019,275
2041	787,138	175,000	40,600	215,600	1,002,738
2042	881,675	175,000	33,600	208,600	1,090,275
2043	626,838	220,000	26,600	246,600	873,438
2044	645,188	220,000	17,800	237,800	882,988
2045	627,688	225,000	9,000	234,000	861,688
Total	\$ 22,932,031	\$ 4,000,000	\$ 2,345,344	\$ 6,345,344	\$ 29,277,375

Average Annual Debt Service Requirement (2019-2045).....	\$1,084,347
Maximum Annual Debt Service Requirement (2021).....	\$1,238,181

TAX DATA

Debt Service Tax

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

Contract Maintenance Tax

The District levies a contract maintenance tax at a rate of \$0.05 per \$100 assessed valuation pursuant to the District’s obligations in the Exclusion Contract with the CLCWA.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District’s improvements, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted on November 4, 2014 and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 appraised valuation for maintenance and operation of water, wastewater, drainage and park/recreational facilities and \$0.25 for maintenance and operation of roads and related improvements. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and in addition to the Contract Maintenance Tax. See “Debt Service Tax” and “Contract Maintenance Tax” above.”

Historical Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$0.590	\$0.550	\$0.000	\$0.000	\$0.000
Maintenance (a)	0.260	0.300	0.850	0.850	0.850
Total	\$0.850	\$0.850	\$0.850	\$0.850	\$0.850

(a) \$0.05 of the Maintenance tax rate is a contract maintenance tax paid to the CLCWA.

Additional Penalties

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of October 31, 2018 (a)	
				Amount	Percent
2014	\$ 111,138	\$0.8500	\$ 9,648	\$ 9,648	100.00%
2015	9,948,683	0.8500	87,039	87,039	100.00%
2016	55,506,810	0.8500	473,374	473,374	100.00%
2017	127,442,637	0.8500	1,083,352	1,083,352	100.00%

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation". The following represents the composition of property comprising the 2014 through 2018 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	2018	2017	2016	2015	2014
Land	\$ 56,651,177	\$ 48,080,558	\$ 29,903,647	\$ 13,240,179	\$ 4,461,014
Improvements	108,672,462	73,362,789	28,269,720	64,936	-
Personal Property	3,457,805	6,813,274	141,498	4,386	-
Exemptions	(762,077)	(813,984)	(2,808,055)	(3,360,818)	(4,349,876)
Total Certified	168,019,367				
Uncertified Value	5,843,783				
Total	<u>\$ 173,863,150</u>	<u>\$ 127,442,637</u>	<u>\$ 55,506,810</u>	<u>\$ 9,948,683</u>	<u>\$ 111,138</u>

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property and the percentage of the 2018 Certified Taxable Assessed Valuation attributable to such property.

Taxpayer	Type of Property	2018 Certified Taxable Assessed Valuation	% of 2018 Certified Taxable Assessed Valuation
HEB Grocery Co	Land & Improvements	\$ 15,117,276	9.00%
Trendmaker Homes Inc./Trendmaker Clear Lake LLC (a)	Land & Improvements	13,775,605	8.20%
Clear Dorado Land Associates LP (a)	Land & Improvements	12,036,380	7.16%
Lennar Homes of Texas	Land & Improvements	2,102,259	1.25%
PetSmart Inc.	Land & Improvements	696,657	0.41%
Individual	Land & Improvements	695,801	0.41%
Individual	Land & Improvements	667,725	0.40%
Individual	Land & Improvements	645,178	0.38%
Individual	Land & Improvements	640,700	0.38%
Individual	Land & Improvements	639,796	0.38%
Total		\$ 47,017,377	27.98%

(a) The Developers.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$173,863,150 or the Estimated Taxable Assessed Valuation as of September 1, 2018 of \$233,354,134 which is subject to review and adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)--Debt Service Requirements."

Average Annual Debt Service Requirement (2019-2045).....	\$1,084,347
\$0.66 Tax Rate on the 2018 Certified Taxable Assessed Valuation	\$1,090,122
\$0.49 Tax Rate on the Estimated Taxable Assessed Valuation as of September 1, 2018	\$1,086,263
Maximum Annual Debt Service Requirement (2021).....	\$1,238,181
\$0.75 Tax Rate on the 2018 Certified Taxable Assessed Valuation	\$1,238,775
\$0.56 Tax Rate on the Estimated Taxable Assessed Valuation as of September 1, 2018	\$1,241,444

No representation or suggestion is made that the estimated values of land and improvements provided by the Appraisal District in the Estimated Taxable Assessed Valuation as of September 1, 2018 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

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

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

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

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

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

District and Taxpayer Remedies

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

The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

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

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

The Effect of FIRREA on Tax Collections of the District

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

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

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

INVESTMENT CONSIDERATIONS

General

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

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the Engineer, the water and wastewater system serving the District sustained no material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, according to the Engineer, no homes or commercial businesses within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

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

Specific Flood Type Risks

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

Riverine (or Fluvial) Flood. Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, commercial development, undeveloped land and developed lots which are currently being marketed by the Developers to the builders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “THE DISTRICT—Status of Development.”

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 18 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and a decline in the nation’s economic condition could adversely affect development and home-building plans in the District and restrain the growth of the District’s property tax base or reduce it from current levels.

Competition

The demand for and construction of single-family homes in the District, which is approximately 18 miles from the central downtown business district of the City of Houston, could be affected by competition from other residential developments including other residential developments located in the southeastern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developers in the sale of developed lots of prospective builders in the construction of single-family residential houses within the District and of Developers marketing commercial property is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District. The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

Landowner Obligation to the District

There are no commitments from or obligations of the Developers or other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable value.

Contract with Clear Lake City Water Authority

Pursuant to an Exclusion Contract between the District and the Clear Lake City Water Authority (the "CLCWA"), the District is required to pay a pro-rata share of the CLCWA debt service requirements on CLCWA's debt outstanding for its central facilities as of the date of the contract and to levy a contract maintenance tax at the rate of \$0.05 per \$100 assessed valuation to pay for operation and maintenance costs incurred by the CLCWA. The determination of the pro-rata share of the CLCWA debt is based on a percentage of .09782% of the CLCWA debt due in each year that CLCWA debt is outstanding.

The District is obligated to pay a pro-rata share of the CLCWA debt, which the District is not able to control and could result in a higher tax burden to District property owners.

Maximum Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Taxable Assessed Valuation is \$173,863,150. After issuance of the Bonds, the maximum debt service requirement will be \$1,238,181 (2021), and the average annual debt service requirement will be \$1,084,347 (2019-2045 inclusive). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, a tax rate of \$0.75 per \$100 of appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and a tax rate of \$0.66 would be necessary to pay the average annual debt service requirement. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements". The District's Estimated Taxable Assessed Valuation as of September 1, 2018 is \$233,354,134, which reduces the above calculations to a tax rate of \$0.56 to pay the maximum debt service requirement and a tax rate of \$0.49 to pay the average debt service requirement on the Bonds.

No representation or suggestion is made that the estimated values of land and improvements provided by the Appraisal District in the Estimated Taxable Assessed Valuation as of September 1, 2018 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment.

Undeveloped Acreage and Vacant Lots

There are approximately 13 developable acres of land within the District that have not been provided with water, wastewater, storm drainage, road and other facilities necessary for the construction of taxable improvements. In addition, there are 150 vacant developed lots and an additional 133 lots under construction. The District makes no representation as to when or if development of the undeveloped acreage will occur or that the lot sales and building program will be successful. See "THE DISTRICT—Land Use—Status of Development."

Dependence on Major Taxpayers and the Developers

The ten principal taxpayers represent \$47,017,377 or approximately 27.98% of the 2018 Certified Taxable Assessed Valuation of \$168,019,367, which represents ownership as of January 1, 2018. Trendmaker Clear Lake LLC and Trendmaker Homes Inc. represent \$13,775,605 or approximately 8.20% of such certified value. See "TAX DATA – Principal Taxpayers."

If any principal taxpayer were to default in the payment of taxes in an amount which exceeds the balance in the District's Debt Service Fund, the ability of the District to make timely payment of debt service on the Bonds would be dependent on the ability of the District to enforce and liquidate its tax lien, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in the District being forced to set an excessive tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its Debt Service Fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAXING PROCEDURES—Levy and Collection of Taxes."

Environmental Regulations

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

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

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues:

Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

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

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

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

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

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

Water Supply & Discharge Issues:

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

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

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

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

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

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

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

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

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Initial Purchaser (defined herein) has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and “A2” (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

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

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

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

Tax Collections Limitations and Foreclosure Remedies

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

Registered Owners’ Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$225,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and storm drainage facilities and refunding of such bonds, \$22,300,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing park and recreational facilities and refunding of such bonds, and \$100,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing roads and related improvements and refunding of such bonds has been authorized by voters in the District. After issuance of the Bonds, \$209,740,000 principal amount of unlimited tax bonds for purchasing and constructing water, wastewater and drainage facilities and refunding of such bonds, all of the authorized bonds for purchasing and constructing park and recreational facilities and refunding of such bonds and \$96,795,000 principal amount of unlimited tax bonds for purchasing and constructing road facilities and refunding of such bonds, will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional bonds or obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. Such bonds require the approval of the TCEQ (other than road bonds and refunding bonds) and the Attorney General.

The Developers have expended approximately \$12,090,000 (as of September, 2018) for design, construction, engineering and acquisition of District's water, wastewater, and storm drainage facilities, approximately \$7,214,000 for parks and recreational facilities and approximately \$4,420,000 for roads and related improvements not yet reimbursed.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue; however, the outstanding principal amount of bonds or other obligations issued to finance parks may not exceed 1% of the District's taxable value. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Changes in Tax Legislation

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's") will assign municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook) to this issue of 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 Assured Guaranty Municipal Corp. The ratings reflect only the view of S&P and Moody's and the District makes no representation as to the appropriateness of the rating.

Moody's has also assigned an underlying rating of "Baa3" to the Bonds. An explanation of the rating may be obtained from Moody's. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody's or S&P, if in their respective judgments, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest

payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

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

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

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

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

Capitalization of AGM

At September 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,203 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,187 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,863 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

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

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

Miscellaneous Matters

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this Official Statement under “THE BONDS,” “THE DISTRICT—General,” “THE DISTRICT—Exclusion Contract with Clear Lake City Water Authority,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

No 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 from that set forth or contemplated in the Preliminary Official Statement, as amended or supplemented through the date of sale.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption “TAX MATTERS” generally applies, except as otherwise provided below, to original issue discount on 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, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this OFFICIAL STATEMENT, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Qualified Tax-Exempt Obligations

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

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

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

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 registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser" or "Underwriter") bearing the interest rates shown on the cover page of this Official Statement, at a price of 97.0003% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.976018% as calculated pursuant to Chapter 1204, Texas Government Code.

Prices and Marketability

The prices and other terms with respect to the offering and the 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 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-allocate or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC 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. Each consultant has consented to the use of information provided by such firms.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Thomas W. Lee of Assessments of the Southwest and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the water, wastewater, and drainage system serving or provided by the District and certain information included in the sections entitled "THE DISTRICT—Description and Location—Status of Development," and "THE SYSTEM" has been provided by LJA Engineering, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The District's financial statements for the year ended February 28, 2018, were audited by McGrath & Co., PLLC. See "APPENDIX A" for a copy of the District's February 28, 2018 financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) – Operating Fund" has been provided by F.Matuska, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the registered and beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), or any successor to its functions as a repository, through the Electronic Municipal Market Access ("EMMA"), system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB through its EMMA system. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT," (except "Estimated Overlapping Debt") "DEBT SERVICE REQUIREMENTS" and "TAX DATA," and in Appendix A (Financial Statements of the District and certain Supplemental Schedules). The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2019.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated financial information and operating data 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, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is February 28. Accordingly, it must provide updated information by August 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.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other 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 CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of 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 to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance With Prior Undertakings

Since the issuance of its first series of bonds in 2016, the District has complied in all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This OFFICIAL STATEMENT was approved by the Board of Directors of Harris County Water Control and Improvement District No. 161, as of the date shown on the cover page.

/s/ Bob Mueller
President, Board of Directors
Harris County Water Control and Improvement
District No. 161

ATTEST:

/s/ Jeff Safe
Secretary, Board of Directors
Harris County Water Control and Improvement District No. 161

AERIAL LOCATION MAP

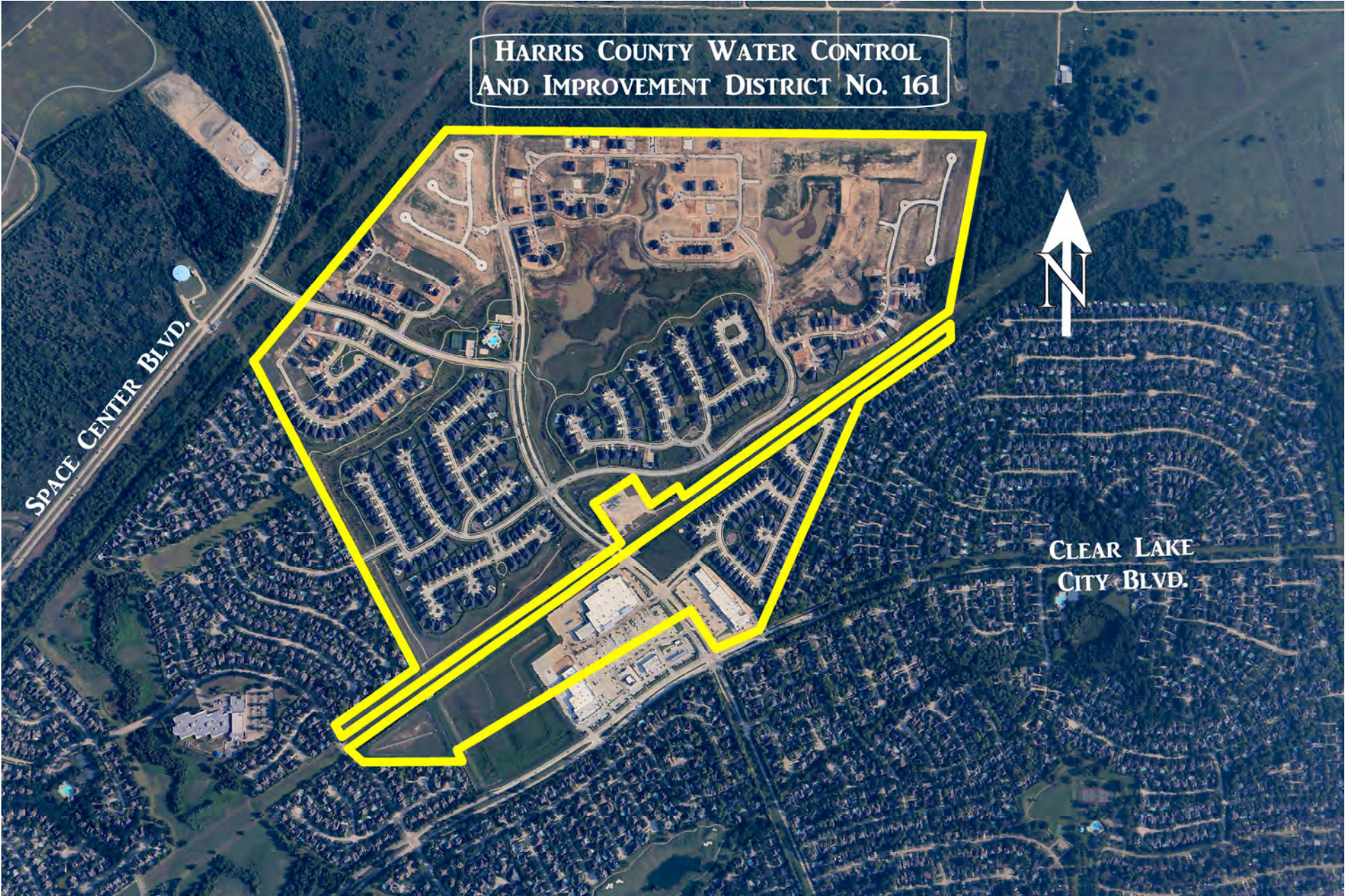
(Approximate boundaries as of September, 2018)

HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT NO. 161

SPACE CENTER BLVD.



CLEAR LAKE
CITY BLVD.



PHOTOGRAPHS OF THE DISTRICT

The following photographs were taken in the District in September 2018 solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if additional improvements will be constructed in the future.















APPENDIX A

Financial Statement of the District for the year ended February 28, 2018

EXHIBIT B

**HARRIS COUNTY WATER CONTROL
IMPROVEMENT DISTRICT NO. 161**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

February 28, 2018

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Independent Auditors' Report

Board of Directors
Harris County Water Control Improvement District No. 161
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Water Control Improvement District No. 161, as of and for the year ended February 28, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Harris County Water Control Improvement District No. 161
Harris County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Water Control Improvement District No. 161, as of February 28, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

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

W.S. Smith & Co., P.C.

Houston, Texas
June 18, 2018

Management's Discussion and Analysis

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***Harris County Water Control Improvement District No. 161
Management's Discussion and Analysis
February 28, 2018***

Using this Annual Report

Within this section of the financial report of Harris County Water Control Improvement District No. 161 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended February 28, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

**Harris County Water Control Improvement District No. 161
Management's Discussion and Analysis
February 28, 2018**

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at February 28, 2018, was negative \$8,629,305. The District's net position is negative because the District incurs debt to construct road facilities which it conveys to the City of Houston. A comparative summary of the District's overall financial position, as of February 28, 2018 and 2017, is as follows:

	2018	2017
Current and other assets	\$ 1,942,958	\$ 947,086
Capital assets	19,502,290	14,032,539
Total assets	<u>21,445,248</u>	<u>14,979,625</u>
Current liabilities	320,491	154,130
Long-term liabilities	29,754,062	20,416,123
Total liabilities	<u>30,074,553</u>	<u>20,570,253</u>
Net position		
Net investment in capital assets	(2,713,999)	(2,260,129)
Restricted	893,942	226,199
Unrestricted	(6,809,248)	(3,556,698)
Total net position	<u>\$ (8,629,305)</u>	<u>\$ (5,590,628)</u>

**Harris County Water Control Improvement District No. 161
Management's Discussion and Analysis
February 28, 2018**

The total net position of the District decreased during the current fiscal year by \$3,038,677. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2018	2017
Revenues		
Property taxes, penalties and interest	\$ 1,186,025	\$ 395,401
Utility service	418,568	251,685
Other	318,692	247,973
Total revenues	<u>1,923,285</u>	<u>895,059</u>
Expenses		
Current service operations	986,134	807,747
Intergovernmental	77,235	43,255
Interest and fees	257,517	48,250
Developer interest	525,178	307,637
Debt issuance costs	448,768	252,066
Depreciation/amortization	485,966	282,821
Total expenses	<u>2,780,798</u>	<u>1,741,776</u>
Change in net position before other item	(857,513)	(846,717)
Other item		
Transfers to other governments	<u>(2,181,164)</u>	<u>(3,817,710)</u>
Change in net position	(3,038,677)	(4,664,427)
Net position, beginning of year	<u>(5,590,628)</u>	<u>(926,201)</u>
Net position, end of year	<u>\$ (8,629,305)</u>	<u>\$ (5,590,628)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of February 28, 2018, were \$1,687,513, which consists of \$471,172 in the General Fund, \$874,003 in the Debt Service Fund and \$342,338 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of February 28, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 704,949</u>	<u>\$ 406,730</u>
Total liabilities	\$ 223,762	\$ 152,667
Total deferred inflows	10,015	6,788
Total fund balance	471,172	247,275
Total liabilities, deferred inflows and fund balance	<u>\$ 704,949</u>	<u>\$ 406,730</u>

*Harris County Water Control Improvement District No. 161
Management's Discussion and Analysis
February 28, 2018*

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

	2018	2017
Total revenues	\$ 1,204,432	\$ 890,245
Total expenditures	(980,535)	(725,987)
Revenues over expenditures	223,897	164,258
Other changes in fund balance		79,000
Net change in fund balance	<u>\$ 223,897</u>	<u>\$ 243,258</u>

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

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

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of February 28, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 895,671</u>	<u>\$ 226,199</u>
Total liabilities	\$ 1,729	\$ -
Total deferred inflows	19,939	
Total fund balance	874,003	226,199
Total liabilities, deferred inflows and fund balance	<u>\$ 895,671</u>	<u>\$ 226,199</u>

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

	2018	2017
Total revenues	\$ 694,914	\$ 9,057
Total expenditures	<u>(265,310)</u>	<u>(52,085)</u>
Revenues over/(under) expenditures	429,604	(43,028)
Other changes in fund balance	218,200	269,227
Net change in fund balance	<u>\$ 647,804</u>	<u>\$ 226,199</u>

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

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of February 28, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 342,338</u>	<u>\$ 314,157</u>
Total liabilities	\$ -	\$ 1,463
Total fund balance	342,338	312,694
Total liabilities and fund balance	<u>\$ 342,338</u>	<u>\$ 314,157</u>

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

	2018	2017
Total revenues	\$ 772	\$ 92
Total expenditures	<u>(6,319,928)</u>	<u>(3,727,921)</u>
Revenues under expenditures	(6,319,156)	(3,727,829)
Other changes in fund balance	6,348,800	4,040,523
Net change in fund balance	<u>\$ 29,644</u>	<u>\$ 312,694</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2017 Unlimited Tax Bonds in the current year and the sale of its Series 2016 Unlimited Tax Bonds in the prior year.

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General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$172,687 greater than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

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

Capital assets held by the District at February 28, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	\$ 4,079,224	\$ 3,703,633
Capital assets being depreciated/amortized		
Infrastructure	10,691,459	8,265,220
Parks and recreation	1,659,190	
Landscaping improvements	3,187,586	2,061,314
Impact fees	733,926	365,501
	<u>16,272,161</u>	<u>10,692,035</u>
Less accumulated depreciation/amortization		
Infrastructure	(474,497)	(250,445)
Parks and recreation	(82,959)	
Landscaping improvements	(262,444)	(103,065)
Impact fees	(29,195)	(9,619)
	<u>(849,095)</u>	<u>(363,129)</u>
Depreciable capital assets, net	<u>15,423,066</u>	<u>10,328,906</u>
Capital assets, net	<u>\$ 19,502,290</u>	<u>\$ 14,032,539</u>

Capital asset additions during the current year include the following:

- Utilities to serve The Reserve at Clear Lake, Section 3
- Utilities to serve The Reserve at El Dorado Clear Lake City, Sections 10 and 11
- Sunrise Lake Drive detention pond

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- Utilities to serve El Dorado Boulevard extension, phase 3
- Drainage facilities for Travis Heights Lane expansion
- Park facilities for the Reserve at Clear Lake, phase 1A
- Landscaping improvements for Reserve at Clear Lake, phase 2 detention lakes
- Park facilities for Reserve at Clear Lake, phase 2

The City of Houston assumes responsibility for all roads constructed within the District. Consequently, these projects are not recorded as capital assets on the District's financial statements, but are recorded as transfers to other governments upon completion of construction. For the year ended February 28, 2018, capital assets in the amount of \$2,181,164 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of February 28, 2018, the District owes \$18,718,924 to the developer for completed projects and operating advances. As discussed in Note 6, the District has an additional commitment in the amount of \$6,142,481 for projects under construction by the developer. As previously mentioned, the District will owe its developer for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developer from proceeds of future bond issues.

At February 28, 2018 and 2017, the District had total bonded debt outstanding as shown below:

Series	2018	2017
2016	\$ 4,675,000	\$ 4,675,000
2017	6,585,000	
	<u>\$ 11,260,000</u>	<u>\$ 4,675,000</u>

During the year, the District issued \$6,585,000 in unlimited tax bonds. At February 28, 2018, the District had \$213,740,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and refunding of such bonds; \$22,300,000 for parks and recreational facilities and refunding of such bonds and \$100,500,000 for road improvements and refunding of such bonds.

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Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and utility services and the projected cost of operating the District and providing services to customers. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 1,204,432	\$ 443,666
Total expenditures	<u>(980,535)</u>	<u>(332,259)</u>
Revenues over expenditures	223,897	111,407
Other changes in fund balance		97,266
Net change in fund balance	<u>223,897</u>	<u>208,673</u>
Beginning fund balance	247,275	471,172
Ending fund balance	<u>\$ 471,172</u>	<u>\$ 679,845</u>

Basic Financial Statements

*Harris County Water Control Improvement District No. 161
Statement of Net Position and Governmental Funds Balance Sheet
February 28, 2018*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 400,128	\$ 1,060,582	\$ 368,346	\$ 1,829,056	\$ -	\$ 1,829,056
Taxes receivable	10,015	19,939		29,954		29,954
Customer service receivables	75,948			75,948		75,948
Internal balances	211,177	(185,169)	(26,008)			
Due from operator	7,681			7,681		7,681
Other receivables		319		319		319
Capital assets not being depreciated					4,079,224	4,079,224
Capital assets, net					15,423,066	15,423,066
Total Assets	\$ 704,949	\$ 895,671	\$ 342,338	\$ 1,942,958	19,502,290	21,445,248
Liabilities						
Accounts payable	\$ 15,641	\$ -	\$ -	\$ 15,641		15,641
Other payables	444	1,729		2,173		2,173
Customer deposits	54,115			54,115		54,115
Due to other governments	68,242			68,242		68,242
Due to developer					18,718,924	18,718,924
Long-term debt						
Due within one year					95,000	95,000
Due after one year					11,035,138	11,035,138
Total Liabilities	223,762	1,729		225,491	29,849,062	30,074,553
Deferred Inflows of Resources						
Deferred property taxes	10,015	19,939		29,954	(29,954)	
Fund Balances/Net Position						
Fund Balances						
Restricted		874,003	342,338	1,216,341	(1,216,341)	
Unassigned	471,172			471,172	(471,172)	
Total Fund Balances	471,172	874,003	342,338	1,687,513	(1,687,513)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 704,949	\$ 895,671	\$ 342,338	\$ 1,942,958		
Net Position						
Net investment in capital assets					(2,713,999)	(2,713,999)
Restricted for debt service					893,942	893,942
Unrestricted					(6,809,248)	(6,809,248)
Total Net Position					\$ (8,629,305)	\$ (8,629,305)

See notes to basic financial statements.

Harris County Water Control Improvement District No. 161
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Utility service	\$ 418,568	\$ -	\$ -	\$ 418,568	\$ -	\$ 418,568
Property taxes	468,710	691,409		1,160,119	21,183	1,181,302
Penalties and interest		2,739		2,739	1,984	4,723
Tap connection and inspection	301,193			301,193		301,193
Miscellaneous	15,545	50		15,595		15,595
Investment earnings	416	716	772	1,904		1,904
Total Revenues	1,204,432	694,914	772	1,900,118	23,167	1,923,285
Expenditures/Expenses						
Current service operations						
Purchased services	306,403			306,403		306,403
Professional fees	82,009		69,630	151,639		151,639
Contracted services	374,279	11,368		385,647		385,647
Repairs and maintenance	86,559			86,559		86,559
Utilities	3,485			3,485		3,485
Administrative	33,873	1,620	216	35,709		35,709
Other	16,692			16,692		16,692
Capital outlay			5,276,136	5,276,136	(5,276,136)	
Intergovernmental						
Contractual obligation	77,235			77,235		77,235
Debt service						
Interest and fees		252,322		252,322	5,195	257,517
Developer interest			525,178	525,178		525,178
Debt issuance costs			448,768	448,768		448,768
Depreciation/amortization					485,966	485,966
Total Expenditures/Expenses	980,535	265,310	6,319,928	7,565,773	(4,784,975)	2,780,798
Revenues Over/(Under) Expenditures/Expenses	223,897	429,604	(6,319,156)	(5,665,655)	4,808,142	(857,513)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		218,200	6,366,800	6,585,000	(6,585,000)	
Repayment of operating advances			(18,000)	(18,000)	18,000	
Other Item						
Transfers to other governments					(2,181,164)	(2,181,164)
Net Change in Fund Balances	223,897	647,804	29,644	901,345	(901,345)	
Change in Net Position					(3,038,677)	(3,038,677)
Fund Balance/Net Position						
Beginning of the year	247,275	226,199	312,694	786,168	(6,376,796)	(5,590,628)
End of the year	\$ 471,172	\$ 874,003	\$ 342,338	\$ 1,687,513	\$ (10,316,818)	\$ (8,629,305)

See notes to basic financial statements.

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Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Water Control Improvement District No. 161 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to Senate Bill No. 1841, Acts 2013, 83rd Legislature, Regular Session, dated June 14, 2013, and operates in accordance with Section 52, Article III, and Section 59, Article XVI, Texas Constitution, as well as the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on October 4, 2013 and the first bonds were sold on November 22, 2016.

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At February 28, 2018, allowances for uncollectible accounts were not considered necessary.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets, which primarily consist of water, wastewater, drainage facilities and landscaping improvements, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Parks and recreation	20 years
Landscaping Improvements	20 years
Impact Fees	40 years (max)

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

Deferred Inflows and Outflows of Financial Resources

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

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources (continued)

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

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District 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 externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$ 1,687,513
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Historical cost	\$ 20,351,385
Less accumulated depreciation/amortization	<u>(849,095)</u>
Change due to capital assets	19,502,290
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(18,718,924)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of bonds payable, net.	(11,130,138)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	29,954
Total net position - governmental activities	<u><u>\$ (8,629,305)</u></u>

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

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

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

Net change in fund balances - total governmental funds	\$	901,345
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.		23,167
Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the <i>Statement of Activities</i> , the cost of capital assets is charged to expense over the estimated useful life of the asset.		
Capital outlays	\$	5,276,136
Depreciation/amortization expense		<u>(485,966)</u>
		4,790,170
The issuance of long-term debt provides current financial resources to governmental funds. However, the transaction has no effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.		
Issuance of long term debt		(6,585,000)
Interest expense		<u>(5,195)</u>
		(6,590,195)
Amounts repaid to the District's developer for operating advances do not use financial resources at the fund level, but reduce the liability in the <i>Statement of Net Position</i> .		18,000
The District conveys public roads to the City of Houston upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the <i>Statement of Activities</i> , these amounts are reported as transfers to other governments.		(2,181,164)
Change in net position of governmental activities	<u>\$</u>	<u>(3,038,677)</u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at February 28, 2018, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 185,169	Maintenance tax and contract tax collections not remitted as of year end
General Fund	Capital Projects Fund	26,008	Debt issuance costs

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 4 – Amounts Due to/from Other Funds (continued)

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended February 28, 2018, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 3,703,633	\$ 375,591	\$ 4,079,224
Capital assets being depreciated/amortized			
Infrastructure	8,265,220	2,426,239	10,691,459
Parks and recreation		1,659,190	1,659,190
Landscaping improvements	2,061,314	1,126,272	3,187,586
Impact fees	365,501	368,425	733,926
	<u>10,692,035</u>	<u>5,580,126</u>	<u>16,272,161</u>
Less accumulated depreciation/amortization			
Infrastructure	(250,445)	(224,052)	(474,497)
Parks and recreation		(82,959)	(82,959)
Landscaping improvements	(103,065)	(159,379)	(262,444)
Impact fees	(9,619)	(19,576)	(29,195)
	<u>(363,129)</u>	<u>(485,966)</u>	<u>(849,095)</u>
Subtotal depreciable capital assets, net	<u>10,328,906</u>	<u>5,094,160</u>	<u>15,423,066</u>
Capital assets, net	<u>\$ 14,032,539</u>	<u>\$ 5,469,751</u>	<u>\$ 19,502,290</u>

Depreciation/amortization expense for the current year was \$485,966.

Note 6 – Due to Developer

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

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 6 – Due to Developer (continued)

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

Due to developer, beginning of year	\$ 15,876,179
Developer reimbursements	(5,294,136)
Developer funded construction and adjustments	<u>8,136,881</u>
Due to developer, end of year	<u><u>\$ 18,718,924</u></u>

In addition, the District will owe the developer approximately \$6,142,481, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Providence Bay detention ponds	\$ 977,778	\$ 871,622	\$ 106,156
Lift station no. 2	735,066	577,675	157,391
El Dorado Clear Lake City, Section 11 paving	525,501	409,877	115,624
El Dorado Clear Lake City, Section 12 utilities	841,795	613,264	228,531
El Dorado Clear Lake City, Section 12 paving	732,290	55,438	676,852
El Dorado Clear Lake City, Section 13 utilities	483,508		483,508
The Reserve - Recreation center detention basin, phase 2	239,813	228,799	11,014
The Reserve - Section 8 hardscape	435,607	414,066	21,541
The Reserve - Section 10 landscape improvements	281,926	267,226	14,700
The Reserve - Phase 3 detention lake landscape improvements	889,197	12,269	876,928
	<u>\$ 6,142,481</u>	<u>\$ 3,450,236</u>	<u>\$ 2,692,245</u>

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 11,260,000
Unamortized discounts	(129,862)
	<u>\$ 11,130,138</u>
Due within one year	<u><u>\$ 95,000</u></u>

*Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018*

Note 7 – Long-Term Debt(continued)

The District’s bonds payable at February 28, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2016	\$ 4,675,000	\$ 4,675,000	2.00% - 3.75%	September 1, 2018/2042	September 1, March 1	September 1, 2024
2017	6,585,000	6,585,000	2.00% - 4.00%	September 1, 2019./2043	September 1, March 1	September 1, 2025
	<u>\$ 11,260,000</u>					

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

At February 28, 2018, the District had authorized but unissued bonds in the amount of \$213,740,000 for water, sewer and drainage facilities and refunding of such bonds; \$22,300,000 for park and recreational facilities and refunding of such bonds; and \$100,500,000 for road facilities and refunding of such bonds.

On September 21, 2017, the District issued its \$6,585,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.718459%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District; the acquisition of land for certain District facilities; and operating advances; (2) to pay developer interest at the net effective interest rate of the bonds and (3) to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	\$ 4,675,000
Bonds issued	6,585,000
Bonds payable, end of year	<u>\$ 11,260,000</u>

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 7 – Long-Term Debt (continued)

The debt service payment due March 1 was made during the current fiscal year. The following schedule was prepared presuming this practice will continue. As of February 28, 2018, annual debt service requirements on bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 95,000	\$ 371,094	\$ 466,094
2020	345,000	366,694	711,694
2021	365,000	359,593	724,593
2022	370,000	352,243	722,243
2023	375,000	343,205	718,205
2024	380,000	332,169	712,169
2025	390,000	320,619	710,619
2026	395,000	308,844	703,844
2027	400,000	296,919	696,919
2028	410,000	284,769	694,769
2029	420,000	272,156	692,156
2030	425,000	258,891	683,891
2031	435,000	244,857	679,857
2032	445,000	229,953	674,953
2033	455,000	214,441	669,441
2034	465,000	198,463	663,463
2035	475,000	181,851	656,851
2036	485,000	164,724	649,724
2037	500,000	146,850	646,850
2038	510,000	128,219	638,219
2039	525,000	109,134	634,134
2040	535,000	89,597	624,597
2041	550,000	69,281	619,281
2042	565,000	47,906	612,906
2043	585,000	25,695	610,695
2044	360,000	7,200	367,200
	<u>\$ 11,260,000</u>	<u>\$ 5,725,367</u>	<u>\$ 16,985,367</u>

Note 8 – Property Taxes

On November 4, 2014, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The voters also authorized the District's Board of Directors to levy taxes annually for use in road maintenance limited to \$0.25 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

*Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018*

Note 8 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$0.85 per \$100 of assessed value, of which \$0.25 was allocated to maintenance and operations, \$0.55 was allocated to debt service, and \$0.05 was allocated to contract tax pursuant to the District’s contract with Clear Lake City Water Authority. The resulting levy was \$1,096,291 on the adjusted taxable value of \$128,975,367.

Total property taxes receivable, at February 28, 2018, consisted of the following:

Current year taxes receivable	\$ 27,748
Prior years taxes receivable	221
	<u>27,969</u>
Penalty and interest receivable	1,985
Total property taxes receivable	<u>\$ 29,954</u>

Note 9 – Contract with Clear Lake City Water Authority

On December 1, 2014, the District entered into an Exclusion Contract (the “Contract”) with the Clear Lake City Water Authority (the “Authority”) pursuant to which the Authority will provide water, sanitary sewer, and drainage services to the District. Rates charged by the Authority to the District customers shall not exceed one and a half times the cost charged to customers of the Authority for similar services. Customers are also charged a \$10 per month operations fee by the Authority.

Additionally, the District is required to pay a pro-rata share of the Authority’s debt service requirements on the debt outstanding for its central facilities as of the date of the Contract (i.e., \$86,020,000) and to levy a contract tax in the amount of \$0.05 per \$100 of assessed value to pay for operation and maintenance costs incurred by the Authority. The determination of the District’s prorata share is based on the percentage of total taxable property within the District to total taxable value of property within the Authority.

During the current year, the District recognized expenses of \$77,235 for amounts due to the Authority for its pro-rata share of the Authority’s debt service requirements and contract taxes levied for operation and maintenance costs incurred by the Authority. At February 28, 2018, contract taxes in the amount of \$68,242 were payable to the Authority.

Harris County Water Control Improvement District No. 161
Notes to Basic Financial Statements
February 28, 2018

Note 10 – Transfers to Other Governments

The City of Houston (“City”) assumes responsibility for the maintenance of public roads constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of the City, not the District. For the year ended February 28, 2018, the District recorded transfers to other governments in the amount of \$2,181,164 for road facilities constructed by a developer within the District.

Note 11 – Risk Management

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

Note 12 – Concentration of Risk

Approximately 42% of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are a significant source of revenue in the General Fund and the primary source of revenue in the Debt Service Fund, the ability of these taxpayers to continue to pay their property taxes is an important factor in the District’s ability to meet its future obligations.

Note 13 – Subsequent Event

On March 21, 2018, the District issued its \$3,705,000 Series 2018 Unlimited Tax Road Bonds at a net effective rate of 3.814133%. Proceeds from the bonds were used to reimburse the District’s developer for infrastructure improvements in the District.

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Required Supplementary Information

*Harris County Water Control Improvement District No. 161
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended February 28, 2018*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Utility service	\$ 50,000	\$ 50,000	\$ 418,568	\$ 368,568
Property taxes	162,700	314,730	468,710	153,980
Tap connection and inspection			301,193	301,193
Miscellaneous			15,545	15,545
Investment earnings	500	500	416	(84)
Total Revenues	<u>213,200</u>	<u>365,230</u>	<u>1,204,432</u>	<u>839,202</u>
Expenditures				
Current service operations				
Purchased services			306,403	(306,403)
Professional fees	93,000	93,000	82,009	10,991
Contracted services	47,500	53,670	374,279	(320,609)
Repairs and maintenance	35,950	78,300	86,559	(8,259)
Utilities	3,600	3,600	3,485	115
Administrative	19,200	21,460	33,873	(12,413)
Other	1,500	1,500	16,692	(15,192)
Intergovernmental				
Contractual obligation	50,040	62,490	77,235	(14,745)
Total Expenditures	<u>250,790</u>	<u>314,020</u>	<u>980,535</u>	<u>(666,515)</u>
Revenues Over/(Under) Expenditures	(37,590)	51,210	223,897	172,687
Other Financing Sources				
Developer advances	37,590			
Net Change in Fund Balance		51,210	223,897	172,687
Fund Balance				
Beginning of the year	247,275	247,275	247,275	
End of the year	<u>\$ 247,275</u>	<u>\$ 298,485</u>	<u>\$ 471,172</u>	<u>\$ 172,687</u>

Harris County Water Control Improvement District No. 161
Notes to Required Supplementary Information
February 28, 2018

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.

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Texas Supplementary Information

Harris County Water Control Improvement District No. 161
TSI-1. Services and Rates
February 28, 2018

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

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

2. Retail Service Providers

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

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

* The District bills all residential customers bimonthly.

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 17.60	2,000	N	\$ 1.60	2,001 to 10,000
				4.40	10,001 to 20,000
				3.65	20,001 to no limit
Wastewater:	\$ 17.60	2,000	N	1.60	2,001 to 10,000
				3.04	10,001 to no limit
Service fee	\$ 20.00	N/A	Y		to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 30.40 Wastewater \$ 30.40

Service fee \$ 20.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	224	224	x 1.0	224
1"	117	117	x 2.5	293
1.5"	3	3	x 5.0	15
2"	17	17	x 8.0	136
3"	1	1	x 15.0	15
4"			x 25.0	
6"			x 50.0	
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water	364	364		843
Total Wastewater	335	335	x 1.0	335

* Rates determined by Clear Lake City Water Authority.

See accompanying auditor's report.

Harris County Water Control Improvement District No. 161
TSI-1. Services and Rates
February 28, 2018

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

*Gallons purchased into system:	<u>66,585,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>66,585,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

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

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

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

Is the District located entirely within one county? Yes No

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

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

City(ies) in which the District is located: City of Houston

Is the District located within a city's extra territorial jurisdiction (ETJ)?
 Entirely Partly Not at all

ETJs in which the District is located: _____

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

If Yes, by whom? _____

* Gallons purchased from the City of Houston

See accompanying auditors' report.

*Harris County Water Control Improvement District No. 161
 TSI-2 General Fund Expenditures
 For the Year Ended February 28, 2018*

Purchased services		<u>\$ 306,403</u>
Professional fees		
Legal		52,543
Audit		8,000
Engineering		21,465
		<u>82,009</u>
Contracted services		
Bookkeeping		9,180
Operator		40,696
Tap connection and inspection		324,403
		<u>374,279</u>
Repairs and maintenance		<u>86,559</u>
Utilities		<u>3,485</u>
Administrative		
Directors fees		7,200
Printing and office supplies		1,328
Insurance		8,962
Other		16,383
		<u>33,873</u>
Other		<u>16,692</u>
Intergovernmental		
Contractual obligation		<u>77,235</u>
Total expenditures		<u>\$ 980,535</u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	10,089 kWh	\$ 3,443
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-4. Taxes Levied and Receivable
February 28, 2018

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 6,389	\$ 399	\$ -	\$ 6,788
Adjustments to Prior Year Tax Levy	87,952	5,497		93,449
Adjusted Receivable	94,341	5,896		100,237
2017 Original Tax Levy	240,002	48,000	528,004	816,006
Adjustments	82,437	16,487	181,361	280,285
Adjusted Tax Levy	322,439	64,487	709,365	1,096,291
Total to be accounted for	416,780	70,383	709,365	1,196,528
Tax collections:				
Current year	314,277	62,855	691,411	1,068,543
Prior years	94,132	5,884		100,016
Total Collections	408,409	68,739	691,411	1,168,559
Taxes Receivable, End of Year	\$ 8,371	\$ 1,644	\$ 17,954	\$ 27,969
Taxes Receivable, By Years				
2017	\$ 8,162	\$ 1,632	\$ 17,954	\$ 27,748
2016	209	12		221
Taxes Receivable, End of Year	\$ 8,371	\$ 1,644	\$ 17,954	\$ 27,969
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 48,080,558	\$ 17,274,722	\$ 13,301,588	\$ 4,461,014
Improvements	74,370,315	28,819,663		
Personal Property	7,297,921	141,498	4,386	
Exemptions	(773,427)	(675,536)	(3,472,577)	(4,349,876)
Total Property Valuations	\$ 128,975,367	\$ 45,560,347	\$ 9,833,397	\$ 111,138
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.25	\$ 0.80	\$ 0.80	\$ 0.80
Debt service rates	0.55			
Contract tax rates	0.05	0.05	0.05	0.05
Total Tax Rates per \$100 Valuation	\$ 0.85	\$ 0.85	\$ 0.85	\$ 0.85
Adjusted Tax Levy:	\$ 1,096,291	\$ 387,263	\$ 83,584	\$ 945
Percentage of Taxes Collected to Taxes Levied **	97.47%	99.95%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 4, 2014

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 4, 2014

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

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
February 28, 2018

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 95,000	\$ 152,894	\$ 247,894
2020	100,000	150,944	250,944
2021	105,000	148,893	253,893
2022	110,000	146,743	256,743
2023	115,000	144,205	259,205
2024	120,000	140,969	260,969
2025	130,000	137,219	267,219
2026	135,000	133,244	268,244
2027	140,000	129,119	269,119
2028	150,000	124,769	274,769
2029	160,000	120,119	280,119
2030	165,000	115,141	280,141
2031	175,000	109,719	284,719
2032	185,000	103,753	288,753
2033	195,000	97,341	292,341
2034	205,000	90,463	295,463
2035	215,000	83,113	298,113
2036	225,000	75,412	300,412
2037	240,000	67,125	307,125
2038	250,000	58,244	308,244
2039	265,000	48,909	313,909
2040	275,000	39,122	314,122
2041	290,000	28,881	318,881
2042	305,000	17,906	322,906
2043	325,000	6,095	331,095
	<u>\$ 4,675,000</u>	<u>\$ 2,470,342</u>	<u>\$ 7,145,342</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
February 28, 2018

Due During Fiscal Years Ending	Principal Due, September 1 March 1	Interest Due September 1, March 1	Total
2019	\$ -	\$ 218,200	\$ 218,200
2020	245,000	215,750	460,750
2021	260,000	210,700	470,700
2022	260,000	205,500	465,500
2023	260,000	199,000	459,000
2024	260,000	191,200	451,200
2025	260,000	183,400	443,400
2026	260,000	175,600	435,600
2027	260,000	167,800	427,800
2028	260,000	160,000	420,000
2029	260,000	152,037	412,037
2030	260,000	143,750	403,750
2031	260,000	135,138	395,138
2032	260,000	126,200	386,200
2033	260,000	117,100	377,100
2034	260,000	108,000	368,000
2035	260,000	98,738	358,738
2036	260,000	89,312	349,312
2037	260,000	79,725	339,725
2038	260,000	69,975	329,975
2039	260,000	60,225	320,225
2040	260,000	50,475	310,475
2041	260,000	40,400	300,400
2042	260,000	30,000	290,000
2043	260,000	19,600	279,600
2044	360,000	7,200	367,200
	<u>\$ 6,585,000</u>	<u>\$ 3,255,025</u>	<u>\$ 9,840,025</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
February 28, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	\$ 95,000	\$ 371,094	\$ 466,094
2020	345,000	366,694	711,694
2021	365,000	359,593	724,593
2022	370,000	352,243	722,243
2023	375,000	343,205	718,205
2024	380,000	332,169	712,169
2025	390,000	320,619	710,619
2026	395,000	308,844	703,844
2027	400,000	296,919	696,919
2028	410,000	284,769	694,769
2029	420,000	272,156	692,156
2030	425,000	258,891	683,891
2031	435,000	244,857	679,857
2032	445,000	229,953	674,953
2033	455,000	214,441	669,441
2034	465,000	198,463	663,463
2035	475,000	181,851	656,851
2036	485,000	164,724	649,724
2037	500,000	146,850	646,850
2038	510,000	128,219	638,219
2039	525,000	109,134	634,134
2040	535,000	89,597	624,597
2041	550,000	69,281	619,281
2042	565,000	47,906	612,906
2043	585,000	25,695	610,695
2044	360,000	7,200	367,200
	<u>\$ 11,260,000</u>	<u>\$ 5,725,367</u>	<u>\$ 16,985,367</u>

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-6. Change in Long-Term Bonded Debt
February 28, 2018

	Bond Issue		Totals
	Series 2016	Series 2017	
Interest rate	2.00% - 3.75%	2.00% - 4.00%	
Dates interest payable	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/18 - 9/1/42	9/1/19 - 9/1/43	
Beginning bonds outstanding	\$ 4,675,000	\$ -	\$ 4,675,000
Bonds issued		6,585,000	6,585,000
Ending bonds outstanding	<u>\$ 4,675,000</u>	<u>\$ 6,585,000</u>	<u>\$ 11,260,000</u>
Interest paid during fiscal year	<u>\$ 153,844</u>	<u>\$ 109,100</u>	<u>\$ 262,944</u>

Paying agent's name and city
 Series 2016 and Series 2017

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond Authority:	Water, Sewer and	Parks and	Road Bonds
	Drainage Bonds	Recreational Bonds	
Amount Authorized by Voters	\$ 225,000,000	\$ 22,300,000	\$ 100,500,000
Amount Issued	(11,260,000)		
Remaining To Be Issued	<u>\$ 213,740,000</u>	<u>\$ 22,300,000</u>	<u>\$ 100,500,000</u>

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

Debt Service Fund cash and investments balances as of February 28, 2018: \$ 1,060,582

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 653,283

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Four Fiscal Years

	Amounts			
	2018	2017	2016**	2015**
Revenues				
Utility service	\$ 418,568	\$ 251,685	\$ 21,292	\$ -
Property taxes	468,710	390,087	82,380	
Penalties and interest		675	120	
Tap connection and inspection	301,193	236,107	347,031	
Miscellaneous	15,545	11,655	11,669	
Investment earnings	416	36	10	4
Total Revenues	1,204,432	890,245	462,502	4
Expenditures				
Current service operations				
Purchased services	306,403	179,442	19,560	
Professional fees	82,009	86,270	86,768	93,912
Contracted services	374,279	342,637	368,427	7,635
Repairs and maintenance	86,559	40,880	13,575	
Utilities	3,485	2,474	1,902	
Administrative	33,873	17,410	16,320	16,810
Other	16,692	13,619	11,958	27
Intergovernmental				
Contractual obligation	77,235	43,255	14,817	
Total Expenditures	980,535	725,987	533,327	118,384
Revenues Over/(Under) Expenditures	\$ 223,897	\$ 164,258	\$ (70,825)	\$ (118,380)
Total Active Retail Water Connections	364	226	126	N/A
Total Active Retail Wastewater Connections	335	204	118	N/A

*Percentage is negligible

** Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016**	2015**
35%	28%	5%	
39%	44%	18%	
	*	*	
25%	27%	74%	
1%	1%	3%	
*	*	*	100%
100%	100%	100%	100%

25%	20%	4%	
7%	10%	19%	N/A
31%	38%	80%	N/A
7%	5%	3%	
*	*	*	
3%	2%	4%	N/A
1%	2%	3%	N/A
6%	5%	3%	
80%	82%	116%	0%
20%	18%	-16%	100%

*Harris County Water Control Improvement District No. 161
 TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
 For the Current Fiscal Year*

	Amounts	Percent of Fund Total Revenues
	2018	2018
Revenues		
Property taxes	\$ 691,409	100%
Penalties and interest	2,739	*
Miscellaneous	50	*
Investment earnings	716	*
Total Revenues	<u>694,914</u>	<u>100%</u>
Expenditures		
Tax collection services	12,988	2%
Debt service		
Interest and fees	<u>252,322</u>	<u>36%</u>
Total Expenditures	<u>265,310</u>	<u>38%</u>
Revenues Over Expenditures	<u>\$ 429,604</u>	<u>62%</u>

*Percentage is negligible

See accompanying auditors' report.

Harris County Water Control Improvement District No. 161
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended February 28, 2018

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): November 16, 2016
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Bob Mueller	05/16 to 05/20	\$ 1,650	\$ 49	President
Heath Melton	11/16 to 05/18	900	277	Vice President
Jeff Safe	05/16 to 05/20	1,800	284	Secretary
Katy Walston	11/14 to 05/18	1,050	197	Assistant Secretary
Tim Morrow	11/15 to 05/18	1,800	141	Assistant Vice President
Consultants				
Allan Boone Humphries Robinson LLP	10/13	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 69,592		
<i>Bond counsel</i>		172,123		
Clear Lake City Water Authority	05/14	48,124		Operator
Fran Matuska, Inc.	10/13	10,535		Bookkeeper
Assessments of the Southwest, Inc.	10/13	4,870		Tax Collector
Harris County Appraisal District	Legislation	5,453		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	06/14	45		Delinquent Tax Attorney
LJA Engineering, Inc.	10/13	70,060		Engineer
McGrath & Co., PLLC	05/16	15,500		Auditor
FirstSouthwest, a Division of Hilltop Securities	10/13	124,864		Financial Advisor

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

McGrath & Co., PLLC

Certified Public Accountants
P.O. Box 270148
Houston, Texas 77277

Mark W. McGrath CPA
mark@mcgrath-co.com

Colette M. Garcia CPA
colette@mcgrath-co.com

June 18, 2018

Board of Directors
Harris County Water Control Improvement District No. 161
Harris County, Texas

In planning and performing our audit of the financial statements of governmental activities and each major fund of Harris County Water Control Improvement District No. 161 (the "District"), as of and for the year ended February 28, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal controls exists when the design or operation of a control does not allow management, in the normal course of performing their assigned functions, to prevent, detect or correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

The District's management consists of an elected Board of Directors (the "Directors"). Day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors of the District are responsible for the design and implementation of the system of internal control.

Material Weaknesses

We observed the following matters that we consider to be material weaknesses:

- As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. This could result in the District's financial statements and related note

disclosures not fully or accurately presenting the District's financial position and changes in financial position during the fiscal year in conformity with accounting principles generally accepted in the United States of America.

- During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on both the fund basis and the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments could result in misstatements in the District's financial statements.
- The District's Management relies on the District's auditor to prepare the capital asset schedules and post adjustments related to the presentation of the capital assets in the government-wide financial statements. This reliance on the auditor to perform this function could result in the understatement or overstatement of capital assets and due to developer on the District's *Statement of Net Position* or an error in the amount reported as depreciation/amortization expense in the *Statement of Activities*.

Management's Response

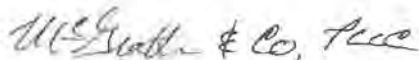
The District's financial statements have been prepared in a manner that is consistent with prior years. The Board engages a bonded bookkeeper who possesses industry knowledge and expertise, including a concentration in special districts accounting. The Board also engages a financial advisor and tax assessor/collector who possess industry knowledge and expertise, as well as legal and professional engineering services. The Board has consulted with its independent auditor concerning this "management letter" and the auditor does not recommend any change in the Board's bookkeeping or audit procedures at this time. To the best of its knowledge, the Board conducts the District's business affairs in the same manner as other similarly situated special districts, and, based on the recommendations of its auditor, does not believe that the addition of an employee to oversee the monthly and annual financial reporting process or to prepare financial statements or that undertaking an additional annual audit is necessary or cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McGrath & Co., PLLC-CPAs
Houston, Texas

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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