

**OFFICIAL STATEMENT DATED JANUARY 15, 2019**

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 are not "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book Entry Only

S&P (AGM Insured) ..... "AA"  
Moody's (AGM Insured) ..... "A2"  
Moody's (Underlying) ..... "A1"

**\$9,655,000**

**CIMARRON MUNICIPAL UTILITY DISTRICT OF HARRIS COUNTY, TEXAS**

(A Political Subdivision of the State of Texas, located within Harris County and Fort Bend County)

**UNLIMITED TAX REFUNDING BONDS**

**SERIES 2019**

Interest Accrues: February 1, 2019

Due: March 1, as shown on inside cover

The \$9,655,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"), are obligations of Cimarron Municipal Utility District of Harris County, Texas (the "District"), and are not obligations of the State of Texas; Harris County, Texas; Fort Bend County, Texas; the City of Houston, Texas; or any political subdivision or entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; Fort Bend County, Texas; the City of Houston, Texas; or any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation to the paying agent/registrars, initially, Regions Bank, Houston, Texas, an Alabama banking corporation, (the "Registrar" or "Paying Agent"). Interest on the Bonds accrues from February 1, 2019, and is payable September 1, 2019, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent to registered owners ("Registered Owners") as shown on the records of the Registrar at the close of business on the 15th calendar day of the month next preceding each interest payment date (the "Record Date"). The Bonds are fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

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

**See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on inside cover.**

The proceeds from sale of the Bonds, plus certain other lawfully available funds of the District, will be applied to refund certain outstanding bonds of the District and to pay costs of issuance of the Bonds. See "PLAN OF FINANCING – Use of Bonds Proceeds." The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See "THE BONDS – Source of Payment." The Bonds are subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriter by Coats Rose, P.C., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds is expected on or about February 21, 2019.

**SAMCO CAPITAL MARKETS, INC.**

## MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$10,000	4.000%	2.010%	171840 NV9	2029 (c)	\$225,000	4.000%	3.030%	171840 PE5
2021	190,000	4.000%	2.060%	171840 NW7	2030 (c)	225,000	4.000%	3.110%	171840 PF2
2022	195,000	4.000%	2.180%	171840 NX5	2031 (c)	225,000	4.000%	3.240%	171840 PG0
2023	200,000	4.000%	2.330%	171840 NY3	2032 (c)	1,320,000	4.000%	3.340%	171840 PH8
2024	215,000	4.000%	2.440%	171840 NZ0	2033 (c)	1,385,000	4.000%	3.430%	171840 PJ4
2025	225,000	4.000%	2.540%	171840 PA3	2034 (c)	1,450,000	4.000%	3.510%	171840 PK1
2026	230,000	4.000%	2.680%	171840 PB1	2035 (c)	1,520,000	4.000%	3.600%	171840 PL9
2027	225,000	4.000%	2.810%	171840 PC9	2036 (c)	1,590,000	4.000%	3.680%	171840 PM7
2028	225,000	4.000%	2.940%	171840 PD7					

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the yield resulting when priced to maturity.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Service, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on March 1, 2029, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on March 1, 2028, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS - Redemption of the Bonds."

**USE OF INFORMATION IN OFFICIAL STATEMENT**

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

All of the summaries of the statutes, resolutions, orders, contracts, audits, 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 Bond Counsel, for further information.

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or 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. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Underwriter and thereafter only as specified in "OFFICIAL STATEMENT - Updating of 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."

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## **INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Cimarron Municipal Utility District of Harris County, Texas (the "District") of its \$9,655,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to a resolution ("Bond Resolution") adopted by the Board of Directors of the District on the date of sale of the Bonds, and pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, as amended, and an election held within the District and passed by a majority of the participating voters.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

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

### **Underwriting**

SAMCO Capital Markets, Inc. (referred to herein as the "Underwriter") has agreed to purchase the Bonds from the District for \$10,015,390.46 (being the par amount of the Bonds, plus premium on the Bonds of \$435,943.60, and less an underwriter's discount of \$75,553.14), plus accrued interest on the Bonds to the date of delivery. The Underwriter's obligation is to purchase all of the Bonds, if any Bonds are purchased.

### **Prices and Marketability**

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### **Securities Laws**

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

## 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 December 21, 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.

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.

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);
- (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 this heading "MUNICIPAL BOND INSURANCE."

## **RATINGS**

The Bonds are expected to receive an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds are expected to receive an insured rating of "A2" from Moody's solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. Moody's has also assigned an underlying credit rating of "A1" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P, the insured rating of Moody's, or the underlying rating of Moody's.

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**OFFICIAL STATEMENT SUMMARY**

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

**THE BONDS**

The Issuer ..... Cimarron Municipal Utility District of Harris County, Texas (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue ..... The District’s \$9,655,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”), are dated February 1, 2019. Interest accrues from February 1, 2019, at the rates set forth on the inside cover page hereof, and is payable September 1, 2019, and each March 1 and September 1 thereafter until the earlier of stated maturity or redemption. The Bonds maturing on or after March 1, 2029, are subject to redemption, in whole or from time to time in part, on March 1, 2028, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption of the Bonds.”

Source of Payment ..... The Bonds are payable from a continuing, direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Texas, Harris County, Texas, Fort Bend County, Texas, the State of Texas, or any entity other than the District. See “THE BONDS – Source of Payment.”

Remaining Outstanding Bonds..... The District has previously issued the following seventeen (17) series of bonds: \$2,380,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977; \$3,290,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980; \$8,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985; \$11,985,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1991; \$9,905,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1993; \$5,430,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1996; \$7,330,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003; \$4,040,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2005; \$4,670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2006; \$4,450,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2007; \$5,130,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2010; \$10,525,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2011 (the “Series 2011 Bonds”); \$2,630,000 Unlimited Tax Bonds, Series 2013; \$6,585,000 Unlimited Tax Refunding Bonds, Series 2014; \$5,790,000 Unlimited Tax Bonds,

Series 2015; \$4,155,000 Unlimited Tax Refunding Bonds, Series 2017; and \$1,215,000 Unlimited Tax Bonds, Series 2017. After sale of the Bonds and refunding of the Refunded Bonds (defined below), a total of \$19,500,000 principal amount of such previously issued series bonds will remain outstanding (the “Remaining Outstanding Bonds”).

- Use of Proceeds ..... Proceeds from sale of the Bonds will be used to refund \$9,705,000 of the principal amount of the Series 2011 Bonds (the “Refunded Bonds”). Proceeds from sale of the Bonds will also be used to pay costs of issuance of the Bonds. The sale of the Bonds and the refunding of the Refunded Bonds will result in an annual and net present value savings in the District’s current annual debt service requirements. See “PLAN OF FINANCING.”
- Payment Record..... The District has never defaulted on the timely payment of principal or interest on its bonded indebtedness. See “THE BONDS – Source of Payment.”
- Authority for Issuance..... The Bonds constitute the eighth series of bonds issued by the District for refunding purposes. Voters in the District have authorized a total of \$6,000,000 principal amount of refunding bonds; \$10,000,000 principal amount of unlimited tax bonds, and \$40,670,000 principal amount of combination unlimited tax and revenue bonds. Following the issuance of the Bonds, \$134,610 principal amount of refunding bonds, \$365,000 principal amount of unlimited tax and refunding bonds, and \$1,325,000 principal amount of combination unlimited tax and revenue bonds will remain authorized and unissued. The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of Payment.”
- Municipal Bond Insurance ..... Assured Guaranty Municipal Corp. See “MUNICIPAL BOND INSURANCE” above.
- Ratings ..... S&P (AGM Insured): “AA.” Moody’s (AGM Insured): “A2.” Moody’s (Underlying): “A1.” See “RATINGS” above.
- Legal Opinion ..... Allen Boone Humphries Robinson LLP, Houston, Texas. See “LEGAL MATTERS.”
- Financial Advisor ..... Robert W. Baird & Co. Incorporated, Houston, Texas.
- Underwriter’s Counsel ..... Coats Rose, P.C., Houston, Texas.
- Verification Agent ..... Grant Thornton LLP, Minneapolis, Minnesota.
- Paying Agent/Registrar ..... Regions Bank, Houston, Texas.

**THE DISTRICT**

- Description..... Cimarron Municipal Utility District of Harris County, Texas, a political subdivision of the State of Texas was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), in 1976 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is located within Harris and Fort Bend Counties, and the extraterritorial jurisdiction of the City of

Houston, and is approximately 4 miles west of downtown Houston. The District has frontage on Interstate Highway 10 (Katy Freeway) and is accessible off Interstate Highway 10, the Grand Parkway, Peek Road and Kingsland Boulevard. The District is located within the boundaries of the Katy Independent School District. The District contains approximately 1,060 acres. See "THE DISTRICT - Description."

Development within the District.....Approximately 366 acres within the District have been developed as the single-family residential subdivisions of Cimarron, Sections 7-9, Governor's Place, Sections 1-4, Heritage Square, Sections 1 and 2 and Cascade Creek. An additional 573 acres have been developed for commercial and multi-family use. As of November 3, 2018, development within the District consisted of 1,472 completed and occupied homes; 16 completed and unoccupied homes and no homes under construction; 3 car dealerships; a sporting goods store; a tire and automotive service center; 3 banks, 3 credit unions; a garden and plant center; 3 gas stations; a brake and automotive service center; a paint store; a pharmacy; a clothing apparel and accessory store; a furniture store; 34 mixed use office/retail/medical buildings totaling approximately 540,000 square feet; a Costco wholesale store consisting of 148,000 square feet; a church; an elementary school; a nursing home; a day care center; a funeral home; 4 restaurants; a hotel with 143 rooms; a motel with 45 rooms; an office condominium complex consisting of 22 buildings with a total of approximately 100,000 square feet and eight apartment complexes containing a total of 2,775 apartment units. Additionally there are three apartment complexes totaling 952 units, a restaurant, a 40 bed rehabilitation hospital, and an office condominium complex under construction. The balance of the District consists of 121 acres for the Grand Parkway and other streets and drainage right-of-way. The District is fully developed with utilities. See "CURRENT STATUS OF DEVELOPMENT IN THE DISTRICT."

Developers.....The current developer of land within the District is The Trammell Crow Company ("Trammell Crow"). Trammell Crow has developed all 125 acres as Grand Crossing Phases 1 through 5. St. Luke's Hospital owns approximately 10 developed acres for future medical facilities. Methodist Hospital owns approximately 59 developed acres for future medical facilities. All of such entities are collectively referred to as the "Developers." See "THE DEVELOPERS."

**INVESTMENT CONSIDERATIONS**

THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON.

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS," BEFORE MAKING AN INVESTMENT DECISION.

**SELECTED FINANCIAL INFORMATION**  
**(UNAUDITED)**

2018 Taxable Assessed Valuation.....	\$ 910,765,280	(a)
Direct Debt		
The Remaining Outstanding Bonds.....	\$ 19,500,000	
The Bonds .....	<u>\$ 9,655,000</u>	
Total.....	\$ 29,155,000	
Estimated Overlapping Debt.....	<u>\$ 47,210,635</u>	(b)
Total Direct and Estimated Overlapping Debt .....	\$ 76,365,635	
Debt Service Fund Balance (as of January 16, 2019) .....	\$1,492,142	(c)
General Fund Balance (as of January 16, 2019) .....	\$4,051,381	
Capital Projects Fund Balance (as of January 16, 2019).....	\$118,433	
2018 Tax Rate per \$100 of Taxable Assessed Valuation		
Debt Service .....	\$0.255	
Maintenance.....	<u>\$0.110</u>	
Total.....	\$0.365	
Direct Debt Ratio:		
As a percentage of 2018 Taxable Assessed Valuation.....	3.20	%
Direct and Estimated Overlapping Debt Ratio:		
As a percentage of 2018 Taxable Assessed Valuation.....	8.38	%
Average Annual Debt Service Requirement (2019–2036) .....	\$2,185,463	(d)
Maximum Annual Debt Service Requirement (2036).....	\$2,313,863	(d)
Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay		
Average Annual Debt Service Requirement (2019–2036) at 95% Tax Collections		
Based Upon 2018 Taxable Assessed Valuation.....	\$0.26	
Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay		
Maximum Annual Debt Service Requirement (2036) at 95% Tax Collections		
Based Upon 2018 Taxable Assessed Valuation.....	\$0.27	

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(a) As certified by the Harris County Appraisal District (the "HCAD") and Fort Bend Central Appraisal District (the "FBCAD"), collectively referred to the "Appraisal Districts." See "TAX DATA" and "TAXING PROCEDURES."

(b) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."

(c) Neither Texas Law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.

(d) Requirement of debt service on the Remaining Outstanding Bonds and the Bonds.

## INTRODUCTION

This Official Statement of Cimarron Municipal Utility District of Harris County, Texas (the "District") is provided to furnish information with respect to the issuance by the District of its \$9,655,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code and Chapter 1207 of the Texas Government Code, (ii) an election held within the District, (iii) a resolution (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and (iv) the City of Houston Ordinance No. 97-416 (the "Ordinance").

Following in this Official Statement are descriptions of the Bonds, the Bond Resolution, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

## THE BONDS

### General

The Bonds are dated February 1, 2019, with interest payable September 1, 2019, and each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully-registered bonds maturing on March 1 of the years shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the inside cover page of this Official Statement.

Principal of the Bonds will be payable to the registered owners (the "Registered Owners") at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, Regions Bank, Houston, Texas, an Alabama banking corporation, (the "Registrar" or "Paying Agent"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent to Registered Owners as shown on the records of the Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Registrar and a Registered Owner at the risk and expense of such Registered Owner.

### Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or 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, Paying Agent or District,

subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to Tender/Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records to Tender/Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to Tender/Remarketing Agent's DTC account.

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

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

The information in the 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.

#### **Successor Paying Agent/Registrar**

Provision is made in the Bond Resolution for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

#### **Registration, Transfer and Exchange**

In the event the Book-Entry-Only system is discontinued, the Bonds are transferable only on the bond register kept by the Registrar upon surrender at the corporate trust office of the Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder. The Bonds are exchangeable upon presentation at the designated office(s) of the Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

## **Redemption of the Bonds**

Bonds maturing on March 1, 2029, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on March 1, 2028, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Registrar prior to the redemption date by such random method as the Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

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

In the event the book-entry-only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

## **Authority for Issuance**

The Bonds constitute the eighth series of bonds issued by the District for refunding purposes. Voters in the District have authorized a total of \$6,000,000 principal amount of refunding bonds; \$10,000,000 principal amount of unlimited tax and refunding bonds, and \$40,670,000 principal amount of combination unlimited tax and revenue bonds. Following the issuance of the Bonds, \$134,610 principal amount of refunding bonds, \$365,000 principal amount of unlimited tax and refunding bonds, and \$1,325,000 principal amount of combination unlimited tax and revenue bonds will remain authorized and unissued. The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code and Chapter 1207 of the Texas Government Code, (ii) an election held within the District, (iii) the Bond Resolution, and (iv) the Ordinance.

## **Source of Payment**

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 all taxable property located within the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees and appraisal districts fees. Tax proceeds, after deduction for collection costs, will be placed in the debt service fund and used solely to pay principal of and interest on the Bonds, and additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees.

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

## **Annexation and Consolidation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City



may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See “THE DISTRICT – Strategic Partnership Agreement,” below, for a description of the terms of the Strategic Partnership Agreement between the City and the District.

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

In 2003, the District entered into a “strategic partnership agreement” (the “SPA”) with the City. Under the SPA, the City annexed certain commercial areas of the District for limited purposes of applying certain City planning, zoning, health and safety ordinances in the area annexed for limited purposes. The City imposes its one percent (1%) sales tax in the areas annexed for limited purposes. In the SPA, the City has agreed to rebate to the District one-half (1/2) of all sales tax revenues collected by the City in the area annexed for limited purposes. In addition, the City has agreed that it will not annex the District for full purposes (a traditional annexation) for thirty years from the effective date of the SPA.

#### **Issuance of Additional Debt**

The District may issue additional bonds with the approval of the Texas Commission on Environmental Quality (“TCEQ”), necessary to provide improvements and facilities consistent with the purposes for which the District was created. Voters in the District have authorized a total of \$10,000,000 principal amount of unlimited tax bonds, \$40,670,000 principal amount of combination unlimited tax and revenue bonds, and \$6,000,000 principal amount of refunding bonds.

The Bonds constitute the eighth series of bonds issued by the District for refunding purposes. Voters in the District have authorized a total of \$6,000,000 principal amount of refunding bonds; \$10,000,000 principal amount of unlimited tax bonds, and \$40,670,000 principal amount of combination unlimited tax and revenue bonds. Following the issuance of the Bonds, \$134,610 principal amount of refunding bonds, \$365,000 principal amount of unlimited tax and refunding bonds, and \$1,325,000 principal amount of combination unlimited tax and revenue bonds will remain authorized and unissued.

The District may issue bonds pursuant to its existing voter authorization necessary to finance additional improvements and facilities for which the District was created, with approval of the Commission. The District anticipates issuing bonds in the future to fully reimburse developers in the District for amounts advanced to construct water, sewer and drainage facilities in the District. See “THE DEVELOPERS – Reimbursement Agreements.” Additional tax or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money, under limited circumstances, for its lawful corporate purpose and to issue revenue notes, bond anticipation notes, or tax anticipation notes. See “INVESTMENT CONSIDERATIONS – Future Debt.”

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) amendment of the existing City ordinance specifying the purposes for which the District may issue bonds; (3) approval of master plan and bonds by the Commission; and (4) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City concerning modification of its ordinance. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the Commission; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

The Bond Resolution imposes no limitation on the amount of additional bonds that may be issued by the District. Any additional bonds issued by the District would be on a parity with the Bonds.

### **No Arbitrage**

The District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

### **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.

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

The following is an excerpt 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.

### **Registered Owners' Remedies**

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

In the event of default in the payment of principal of or interest on the Outstanding Bonds and the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Outstanding Bonds and the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Outstanding Bonds and the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners.

## PLAN OF FINANCING

### Use and Distribution of Bond Proceeds

Proceeds from sale of the Bonds will be used to refund \$9,705,000 principal amount (the "Refunded Bonds") of the District's \$10,525,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2011 (the "Series 2011 Bonds"). Proceeds from sale of the Bonds will also be used to pay costs of issuance of the Bonds. The sale of the Bonds and the refunding of the Refunded Bonds will result in an annual and net present value savings in the District's current annual debt service requirements.

### The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth as follows:

Series 2011 Bonds	
Principal Amount	Maturity Date
\$180,000	03/01/2021
190,000	03/01/2022
195,000	03/01/2023
205,000	03/01/2024
215,000	03/01/2025
220,000	03/01/2026
220,000	03/01/2027
220,000	03/01/2028
220,000	03/01/2029
220,000	03/01/2030
220,000	03/01/2031
1,320,000	03/01/2032
1,395,000	03/01/2033
\$1,475,000	03/01/2034
\$1,560,000	03/01/2035
<u>\$1,650,000</u>	03/01/2036
\$9,705,000	

Redemption Date: 03/01/2019

### Remaining Outstanding Bonds

The District has previously issued the following seventeen (17) series of bonds: \$2,380,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977; \$3,290,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980; \$8,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985; \$11,985,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1991; \$9,905,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1993; \$5,430,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1996; \$7,330,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003; \$4,040,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2005; \$4,670,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2006; \$4,450,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2007; \$5,130,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2010 (the "Series 2010 Bonds"); \$10,525,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2011 (defined above); \$2,630,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"); \$6,585,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Bonds"); \$5,790,000 Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"); \$4,155,000 Unlimited Tax Refunding Bonds, Series 2017 (the "Series 2017 Ref Bonds"); and \$1,215,000 Unlimited Tax Bonds, Series 2017 (the "Series 2017 Bonds").

After the issuance of the Bonds, \$19,500,000 in principal amount will remain outstanding on the Series 2010 Bonds, the Series 2011 Bonds, the Series 2013 Bonds, the Series 2014 Bonds, the Series 2015 Bonds, the Series 2017 Ref Bonds, and the Series 2017 Bonds (the “Remaining Outstanding Bonds”) as follows:

	Original Principal Amount	Principal Currently Outstanding	Less: Refunded Bonds	Remaining Outstanding Bonds
Series 2010 Bonds	\$5,130,000	\$790,000	-0-	\$790,000
Series 2011 Bonds	\$10,525,000	\$10,055,000	(\$9,705,000)	\$350,000
Series 2013 Bonds	\$2,630,000	\$2,375,000	-0-	\$2,375,000
Series 2014 Bonds	\$6,585,000	\$5,475,000	-0-	\$5,475,000
Series 2015 Bonds	\$5,790,000	\$5,240,000	-0-	\$5,240,000
Series 2017 Ref Bonds	\$4,155,000	\$4,110,000	-0-	\$4,110,000
Series 2017 Bonds	\$1,215,000	\$1,160,000	-0-	\$1,160,000
	<u>\$36,030,000</u>	<u>\$29,205,000</u>	<u>(\$9,705,000)</u>	<u>\$19,500,000</u>

### Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

#### SOURCES OF FUNDS:

Principal Amount of the Bonds.....	\$ 9,655,000.00
Net Premium.....	435,943.60
Accrued Interest on the Bonds .....	21,455.56
Debt Service Fund Transfer .....	193,500.00
Capital Projects Fund Transfer .....	<u>167.00</u>
Total Sources of Funds .....	\$ 10,306,066.16

#### USES OF FUNDS:

Deposit for Payment of Refunded Bonds .....	\$ 9,936,943.75
Deposit of Accrued Interest to Debt Service Fund.....	21,455.56
Insurance Premium .....	29,511.17
Issuance Expenses and Underwriter’s Discount.....	<u>318,155.68</u>
Total Uses of Funds.....	\$ 10,306,066.16

### Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on the redemption date from funds to be deposited with Well Fargo Bank, N.A., the paying agent for the Refunded Bonds. The Bond Resolution provides that, from the proceeds of the sale of the Bonds and other available funds of the District, the District will deposit with the paying agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the paying agent for the Refunded Bonds in a segregated payment account (the “Payment Account”).

At the time of delivery of the Bonds, Grant Thornton LLP, will verify to the District, the paying agent for the Refunded Bonds, Bond Counsel, and Financial Advisor that the monies held in the Payment Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

By the deposit of the cash with the paying agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolution of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of the amounts so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

## THE DISTRICT

### Authority

The District is a municipal utility district created by an order of the Texas Water Rights Commission, now the Texas Commission on Environmental Quality, on February 9, 1976. The creation of the District was confirmed at an election held within the District on January 15, 1977, by a vote of six (6) for to none (0) against. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code. The principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, and drainage facilities and to provide such facilities and services to the customers of the District. The District, if approved by the voters within the District, the Commission, and other governmental entities having jurisdiction, may establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. The District is subject to the continuing supervision of the Commission in certain matters.

### Description

The District is located in west Harris County, approximately 24 miles from Houston's central business district and is wholly within the exclusive extraterritorial jurisdiction of the City. A small portion of the District lies within Fort Bend County. The District's original size was approximately 363 acres; three subsequent annexations have increased its size to approximately 1,060 acres. The District is accessible off Interstate Highway 10, the Grand Parkway, Peek Road and Kingsland Boulevard. The District is located within the Katy Independent School District.

### Management of the District

The District is governed by a board of five (5) directors which has control and management supervision over all affairs of the District. The members of the board of directors are elected to their offices. One of the members of the Board own property and four members reside within the boundaries of the District.

All directors serve four-year staggered terms and all elections are held in even-numbered years. The present members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Richard May	President	2020
David F. Jones	Vice President	2022
David Aitken	Secretary	2020
John Linn	Assistant Secretary	2020
Gary Russell	Assistant Vice President	2022

### Investment Policy

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and secured by collateral authorized by the Act, and in TexPool and Texas Class, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

## **Management and Contract Services**

The District does not have any full-time employees; however, the District contracts for management and administrative services, tax collecting, bookkeeping, facilities repair and maintenance, legal, financial advisory, auditing and other professional services as follows:

**Bookkeeper:** The District has engaged Municipal Accounts & Consulting, LP, as the District's Bookkeeper.

**Tax Assessor/Collector:** The District has engaged Bob Leared Interests, Houston, Texas ("Tax Assessor/Collector") as the District's Tax Assessor/Collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Appraisal Districts and bills and collects such levy.

**Utility System Operator:** The District's current operator is Si Environmental, LLC. Such firm acts as operator for approximately 40 utility districts.

**Engineer:** The District has employed the firm of Van De Wiele & Vogler, Inc., Houston, Texas, (the "District's Engineer") as the District's consulting engineer. Such firm presently serves as engineer for approximately 25 special districts.

**Auditing:** The firm of McGrath & Co., PLLC, Certified Public Accountants, prepared the annual audit for the District for the fiscal year ended February 28, 2018. See "APPENDIX A."

**Financial Advisor:** The District has engaged Robert W. Baird and Co. Incorporated, as financial advisor (the "Financial Advisor") to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

**Legal Counsel:** Allen Boone Humphries Robinson LLP, Houston, Texas, serves as Bond Counsel to the District, and also represents the District on certain other matters of a general legal nature. The fees for Bond Counsel for bond-related services are contingent on the issuance, sale and delivery of the Bonds.

## **Special Consultant Related to Issuance of the Bonds**

**Verification Agent:** At the time of delivery of the Bonds, Grant Thornton LLP, Certified Public Accountants, will verify to the District, Bond Counsel, and the Underwriter certain matters related to the issuance of the Bonds and the refunding of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

## **Strategic Partnership Agreement**

Effective April 10, 2003, the District and the City of Houston (the "City"), entered into a Strategic Partnership Agreement ("SPA" or the "Agreement"), under which the City annexed certain commercial areas of the District for limited purposes of applying certain City planning, zoning, health and safety ordinances in the area annexed for limited purposes. The City imposes its one percent (1%) sales tax in the areas annexed for limited purposes. In the SPA, the City has agreed to rebate to the District one-half (1/2) of all sales tax revenues collected by the City in the area annexed for limited purposes. In addition, the City has agreed that it will not annex the District for full purposes (a traditional annexation) for thirty years from the effective date of the Agreement. In fiscal year 2018, the District received \$707,596 in revenues pursuant to the Agreement.

## **CURRENT STATUS OF DEVELOPMENT IN THE DISTRICT**

### **Status of Development**

Approximately 366 acres within the District have been developed as the single-family residential subdivisions of Cimarron, Sections 7–9, Governor's Place, Sections 1–4, Heritage Square, Sections 1 and 2 and Cascade Creek. An additional 573 acres have been developed for commercial and multi-family use. As of November 3, 2018, development within the District consisted of 1,472 completed and occupied homes; 16 completed and unoccupied homes and no homes under construction; 3 car dealerships; a sporting goods store; a tire and automotive service center; 3 banks, 3 credit unions; a garden and plant center; 3 gas stations; a brake and automotive service center; a paint store; a pharmacy; a clothing apparel and accessory store; a furniture store; 34 mixed use office/retail/medical buildings totaling approximately 540,000 square feet; a Costco wholesale store consisting of 148,000 square feet; a church; an elementary school; a nursing home; a day care center; a funeral home; 4 restaurants; a hotel with 143 rooms; a motel with 45 rooms; an office condominium complex consisting of 22 buildings with a total of approximately 100,000 square feet and eight apartment complexes containing a total of 2,775 apartment units. Additionally there are three apartment complexes totaling 952 units, a restaurant, a 40 bed rehabilitation hospital, and an office condominium complex under construction. The balance of the District consists of 121 acres for the Grand Parkway and other streets and drainage right-of-way. The District is fully developed with utilities.

### **THE DEVELOPERS**

#### **Role of a Developer**

In general, activities of a developer in a municipal utility district, such as the District, include defining a marketing program and building schedule, securing necessary governmental approvals and permits, arranging for construction of roads and the installation of certain utilities (including, in some cases, water, sewer and drainage facilities pursuant to the rules of the Commission, as well as gas, telephone and electric service) and selling improved lots and commercial reserves to builders or users. In addition, a developer is ordinarily the major taxpayer within a utility district during early stages of the development. The below listed developers are hereinafter referred to as the "Developers."

#### **Reimbursement Agreements**

The District has entered into an agreement with Trammell Crow pursuant to which such developer is authorized to construct the water, sanitary sewer and drainage facilities necessary to serve its property in the District. Thereafter, the District has agreed to reimburse the developer for such facilities with the proceeds from the sale of its bonds at such time as the value of such developer's land and the taxable improvements constructed or projected to be constructed thereon will amortize such bonds at the District's then current tax rate. The District has sold a sufficient amount of bond to fully reimburse Trammell Crow.

#### **The Developers**

The current developer of land within the District is Trammell Crow. Trammell Crow has developed 125 acres as Grand Crossing Phases 1 through 5. St. Luke's Hospital owns approximately 10 developed acres for future medical facilities. Methodist Hospital owns approximately 59 developed acres for future medical facilities.



**DISTRICT DEBT**

**Debt Service Requirement Schedule**

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

Calendar Year	Outstanding Debt Service	Less: Refunded Debt Service	Plus: The Bonds		Total Debt Service
			Principal	Interest	
2019	\$2,184,754	\$463,888	-	\$225,283	\$1,946,150
2020	2,193,405	463,888	\$10,000	386,000	2,125,517
2021	2,188,325	638,938	190,000	382,000	2,121,387
2022	2,206,210	640,188	195,000	374,300	2,135,323
2023	2,206,746	637,488	200,000	366,400	2,135,658
2024	2,213,906	639,488	215,000	358,100	2,147,519
2025	2,229,797	641,088	225,000	349,300	2,163,010
2026	2,234,348	636,838	230,000	340,200	2,167,711
2027	2,237,446	627,213	225,000	331,100	2,166,334
2028	2,248,736	617,863	225,000	322,100	2,177,973
2029	2,262,685	608,375	225,000	313,100	2,192,410
2030	2,279,080	598,613	225,000	304,100	2,209,568
2031	2,277,714	588,438	225,000	295,100	2,209,376
2032	2,327,500	1,651,863	1,320,000	264,200	2,259,838
2033	2,342,491	1,662,381	1,385,000	210,100	2,275,209
2034	2,360,788	1,672,375	1,450,000	153,400	2,291,813
2035	2,367,172	1,681,500	1,520,000	94,000	2,299,672
2036	<u>2,383,313</u>	<u>1,691,250</u>	1,590,000	<u>31,800</u>	<u>2,313,863</u>
Total	\$40,744,414	\$16,161,669	\$9,655,000	\$5,100,583	\$39,338,328

Average Annual Debt Service Requirement (2019–2036) .....	\$2,185,463
Maximum Annual Debt Service Requirement (2036) .....	\$2,313,863

**Bonded Indebtedness**

2018 Taxable Assessed Valuation.....	\$ 910,765,280 (a)
Direct Debt	
The Remaining Outstanding Bonds.....	\$ 19,500,000
The Bonds.....	\$ <u>9,655,000</u>
Total.....	\$ 29,155,000
Estimated Overlapping Debt.....	\$ <u>47,210,635</u> (b)
Total Direct and Estimated Overlapping Debt.....	\$ 76,365,635
Debt Service Fund Balance (as of January 16, 2019).....	\$1,492,142 (c)
General Fund Balance (as of January 16, 2019).....	\$4,051,381
Capital Projects Fund Balance (as of January 16, 2019).....	\$118,433
2018 Tax Rate per \$100 of Taxable Assessed Valuation	
Debt Service.....	\$0.255
Maintenance.....	\$ <u>0.110</u>
Total.....	\$0.365
Direct Debt Ratio:	
As a percentage of 2018 Taxable Assessed Valuation.....	3.20 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of 2018 Taxable Assessed Valuation.....	8.38 %
Average Annual Debt Service Requirement (2019–2036).....	\$2,185,463 (d)
Maximum Annual Debt Service Requirement (2036).....	\$2,313,863 (d)
Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Average Annual Debt Service Requirement (2019–2036) at 95% Tax Collections	
Based Upon 2018 Taxable Assessed Valuation.....	\$0.26
Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Maximum Annual Debt Service Requirement (2036) at 95% Tax Collections	
Based Upon 2018 Taxable Assessed Valuation.....	\$0.27

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- (a) As certified by the Harris County Appraisal District (the "HCAD") and Fort Bend Central Appraisal District (the "FBCAD"), collectively referred to the "Appraisal Districts." See "TAX DATA" and "TAXING PROCEDURES."
  - (b) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
  - (c) Neither Texas Law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
  - (d) Requirement of debt service on the Remaining Outstanding Bonds and the Bonds.

**Estimated Direct and Overlapping Debt Statement**

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

Taxing Jurisdiction	Outstanding Debt November 30, 2018	Overlapping	
		Percent	Amount
Harris County	\$ 2,050,758,022	0.19%	\$ 3,983,383
Harris County Department of Education	6,555,000	0.19	12,730
Harris County Flood Control District	83,075,000	0.20	164,840
Harris County Hospital District	59,490,000	0.20	118,025
Port of Houston Authority	593,754,397	0.20	1,178,268
Fort Bend County	593,424,527	0.07	404,579
Katy Independent School District	1,737,385,000	2.38	<u>41,348,810</u>
Total Estimated Overlapping Debt .....			\$ 47,210,635
The District (a).....			<u>\$ 29,155,000</u>
Total Direct & Estimated Overlapping Debt (a).....			\$ 76,365,635

(a) Includes the Bonds

**Debt Ratios**

Direct Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	3.20 %
Direct and Estimated Overlapping Debt Ratio:	
As a percentage of the 2018 Taxable Assessed Valuation.....	8.38 %

## **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 sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS – Future Debt”), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under “THE BONDS – Source of Payment.” Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. See “TAX DATA – Maintenance Tax.”

### **Property Tax Code and County-Wide Appraisal Districts**

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District and the Fort Bend Central Appraisal District (collectively, the “Appraisal Districts”) have the responsibility of appraising property for all taxing units within Harris and Fort Bend Counties respectively, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board and Fort Bend Central Appraisal Review Board (collectively, the “Appraisal Review Boards”).

### **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; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call 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 the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. 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. 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. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of

the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

*Residential Homestead Exemptions:* The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by before July 1. See "TAX DATA."

*Freeport Goods and Goods-in-Transit Exemption:* A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2013 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Harris County, Fort Bend County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Houston (after annexation of the land within the District,) Harris County, Fort Bend County, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition

that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. Currently, no part of the District has been designated as a reinvestment zone.

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

Generally, property in the District must be appraised by the Appraisal Districts at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Boards, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads 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 of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the Appraisal Districts to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal Districts 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 Districts chooses to formally include such values on its appraisal roll.

On August 26, 2017, Hurricane Harvey ("Harvey") made landfall on the Texas Gulf Coast, severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "INVESTMENT CONSIDERATIONS – Hurricane Harvey." When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are prorated for the year the disaster occurred. The taxing units assess taxes prior to the date the disaster occurred based upon market values as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The District presently has no plan to request a reappraisal due to Harvey.

### **District and Taxpayer Remedies**

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

The Property Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property

values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. 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 in writing 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 equal 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 continues 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 in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to

other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

## **TAX DATA**

### **General**

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (see "TAXING PROCEDURES"). The Board of Directors of the District has in its Bond Resolution covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). The District levied a debt service tax of \$0.255 per \$100 of assessed valuation and a maintenance tax of \$0.11 per \$100 of assessed valuation for the 2018 tax year.

### **Exemptions**

For the 2018 tax year the District adopted an exemption from ad valorem taxation of \$20,000 of the approved value of residence homesteads of individuals who are disabled or are sixty-five (65) years of age or older. To date, the District has never adopted a general residential homestead exemption. See "TAXING PROCEDURES."

Portions of the land owned by the Developers are undeveloped and at some future date could be used for agricultural purposes. Under state law, the owners of such land could be entitled to have such land valued on the basis of its agricultural productivity (qualified open-space land), which would be a small fraction of its fair market value. Each of the Developers have not previously claimed an agricultural valuation, and have waived, on behalf of themselves and their successors and assigns, any right to claim such valuation in future years. The waivers are binding for a period of 30 years.

### **Tax Rate Limitation**

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$0.25 per \$100 Assessed Taxable Valuation.

### **Maintenance Tax**

The Board of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements if such maintenance tax is authorized by vote of the District's electors. The District's voters have authorized the levy of such a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation.

### **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 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.



## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet certain debt service requirements on the Remaining Outstanding Bonds and the Bonds if no growth in the District's tax base occurs beyond the 2018 Taxable Assessed Valuation (\$910,765,280). The calculations assume collection of 95% of taxes levied, the sale of the Bonds, and the refunding of the Refunded Bonds.

Average Annual Debt Service Requirement (2019–2036) .....	\$2,185,463
Tax Rate of \$0.26 on the 2018 Taxable Assessed Valuation produces .....	\$2,249,590
Maximum Annual Debt Service Requirement (2036) .....	\$2,313,863
Tax Rate of \$0.27 on the 2018 Taxable Assessed Valuation produces .....	\$2,336,113

## Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2018 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

Taxing Jurisdiction	Harris County 2018 Tax Rates	Fort Bend County 2018 Tax Rates
The District	\$0.365000	\$0.365000
Harris County	0.418580	--
Harris County Flood Control District	0.028770	--
Port of Houston Authority	0.011550	--
Harris County Hospital District	0.171080	--
Harris County Department of Education	0.005190	--
Harris County Emergency Services District No. 48	0.100000	--
Fort Bend County	--	0.445000
Fort Bend County Drainage District	--	0.019000
Fort Bend County Emergency Services District No. 2	--	0.100000
Katy Independent School District	<u>1.516600</u>	<u>1.516600</u>
Total	\$2.616770	\$2.445600

## Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 12/31/18
2014	\$532,800,587	\$0.5700	\$3,036,963	99.51%	2015	99.89%
2015	672,237,392	0.4200	2,823,397	99.03	2016	99.89
2016	792,201,530	0.3850	3,049,976	99.07	2017	99.72
2017	866,706,540	0.3650	3,163,479	99.16	2018	99.22
2018	910,765,280	0.3650	3,324,293	(b)	2019	(b)

(a) See "Tax Rate Distribution" below

(b) In process of collection.

## Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$0.2550	\$0.2550	\$0.2950	\$0.3400	\$0.5400
Maintenance and Operations	<u>\$0.1100</u>	<u>\$0.1100</u>	<u>\$0.0900</u>	<u>\$0.0800</u>	<u>\$0.0300</u>
Total	\$0.3650	\$0.3650	\$0.3850	\$0.4200	\$0.5700

## Assessed Taxable Valuation Summary

The following represents the type of property comprising the 2014–2018 tax rolls as certified by the Appraisal Districts.

Type of Property	2018 Taxable Assessed Valuation (a)	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation
Land	\$284,717,427	\$290,556,294	\$272,623,890	\$259,081,143	\$215,208,726
Improvements	653,113,441	605,250,025	551,129,284	449,998,473	362,570,185
Personal Property	42,453,140	47,062,239	47,817,813	46,433,399	30,070,014
Exemptions	<u>(74,664,731)</u>	<u>(76,162,018)</u>	<u>(79,369,457)</u>	<u>(83,275,623)</u>	<u>(75,048,338)</u>
Total	\$905,619,277	\$866,706,540	\$792,201,530	\$672,237,392	\$532,800,587

(a) Value differs from 2018 taxable assessed value provided elsewhere herein due to subsequent supplement of tax rolls.

## Principal Taxpayers

The following are the principal taxpayers in the District as shown on the certified appraisal rolls for the 2018 tax year.

Taxpayer	Types of Property	Taxable Value 2018 Tax Roll
GVK Apartments LLC	Land & Improvements	\$47,282,043
CWS Reserve CS PV WB LLC	Land & Improvements	45,441,311
WW Olympus Grand Crossing LP	Land & Improvements	41,914,486
Elan 99 LLC	Land & Improvements	39,864,258
CH Realty VII MF Katy Sorrel LP	Land & Improvements	39,087,988
Price Broadstone LLC	Land & Improvements	37,021,885
EGW Parkside Investment LLC	Land & Improvements	31,877,819
The Methodist Hospital	Land	20,674,960
H&F Partnership	Land & Improvements	15,076,615
Star 2012 Development LP	Land & Improvements	<u>14,506,075</u>
Total		\$332,747,440

Percentage of District Value

36.74%

## THE SYSTEM

### Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the “System”) were designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston, and Harris County, Fort Bend County and the Harris County Flood Control District. According to the District’s Engineer, the design of all such facilities was approved by all required governmental agencies and inspected by the TCEQ. As such facilities were completed, they were conveyed to the District, which is responsible for the operation and maintenance of all water and wastewater facilities serving the areas within its boundaries.

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

### **Subsidence and Conversion to Surface Water Supply**

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is not located within the boundaries of the Authority, but has entered into a contract to be included in the Authority's GRP (defined below). The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP.

The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons effective January 1, 2019 ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

## **Description**

### *Water Supply*

The District's water is supplied by a 1,651 gallons per minute ("gpm") water well ("Water Well No. 1"), a 2,359 gpm water well ("Water Well No. 2"), a 1,227 gpm water well ("Water Well No. 3"), and related appurtenances. In addition to the water wells, the District contains 6 pressure tanks totaling 96,016 gallons, 3 ground storage tanks totaling 1,442,168 gallons and 12 booster pumps totaling 13,452 gpm. The District has emergency interconnects with Harris County Municipal Utility District No. 81 ("HCMUD 81"), Cinco Municipal Utility District No. 1 ("Cinco MUD 1"), West Memorial Municipal Utility District ("West Memorial MUD") and Harris-Fort Bend Counties Municipal Utility District No. 3 ("HFBMUD 3"). The water supply facilities meet the minimum Commission requirements to serve 6,726 equivalent single-family connections ("esfcs"). The District currently is serving approximately 3,098 esfcs. The District has an agreement with HFBMUD 3 to supply such district with approximately 633 esfcs of water capacity.

### *Wastewater Treatment*

The District owns capacity in a regional wastewater treatment plant (the "Plant") that is operated by West Memorial MUD. The Plant has a capacity of 6.75 million gallons per day ("gpm"). The District owns 2,471,000 gpd in the Plant. According to the District's engineer, the District owns sufficient capacity in the Plant to serve full development in the District.

### *Drainage*

The majority of the District's stormwater drains into an outfall channel which runs along the southern boundary of West Memorial MUD (which is the northern boundary of HCMUD 81) in an easterly direction to Mason Creek, thereby affording drainage to the District, HCMUD 81, Mason Creek Utility District and West Memorial MUD. A portion of the District drains to the Willow Fork drainage system within Fort Bend County. According to the District's Engineer, the District's pro rata share of the capacity in such drainage channels is sufficient to serve the ultimate development of all land presently located within the District; however, detention may be required for some portion of the development.

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## Operating History

The following is a summary of the District's Operating Fund for the last five years. The information was obtained from the District's annual financial reports, reference to which is hereby made. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the Commission.

	Fiscal Year Ended				
	2/28/2018	2/28/2017	2/29/2016	2/28/2015	2/28/2014*
<b>Revenues</b>					
Water Service	\$588,522	\$578,926	\$571,751	\$503,607	\$677,412
Sewer service	810,433	699,230	637,281	530,503	672,565
Garbage service	138,795	233,360	241,982	279,673	376,801
Property taxes	944,956	696,109	534,724	164,111	263,392
Penalties and interest	43,041	53,734	40,445	39,949	73,209
Tap connection and inspection	306,535	184,467	266,009	166,779	465,425
City of Houston sales tax rebate	707,596	709,850	744,205	603,094	472,235
Regional Water Authority fees	863,847	758,006	721,371	581,974	802,874
Miscellaneous	27,195	12,775	13,478	11,831	24,087
Investment earnings	<u>26,698</u>	<u>6,145</u>	<u>4,051</u>	<u>3,398</u>	<u>5,489</u>
<b>Total Revenues</b>	<b>\$4,457,618</b>	<b>\$3,932,602</b>	<b>\$3,775,297</b>	<b>\$2,884,919</b>	<b>\$3,833,489</b>
<b>Expenditures</b>					
<b>Current Service Operations</b>					
Purchased Services	\$893,494	\$1,049,280	\$859,849	\$717,081	\$1,114,420
Professional fees	162,256	168,339	204,102	157,082	242,157
Contracted services	548,678	527,338	483,592	395,437	602,844
Repairs and maintenance	628,483	587,416	569,235	443,231	634,186
Utilities	155,227	123,874	122,867	117,800	153,608
Regional Water Authority fees	826,308	320,132	361,866	358,612	358,954
Administrative	99,956	118,755	106,362	88,648	180,359
Other	31,707	26,964	16,122	14,418	-
Economic development grant	100,000	100,000	100,000	100,000	-
Capital outlay	243,860	148,929	-	311,283	63,567
Interest	-	-	-	-	999
Intergovernmental	-	-	<u>188,109</u>	-	-
<b>Total Expenditures</b>	<b>\$3,689,969</b>	<b>\$3,171,027</b>	<b>\$3,012,104</b>	<b>\$2,703,592</b>	<b>\$3,351,094</b>

\* Seventeen month period.

## INVESTMENT CONSIDERATIONS

### General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, Fort Bend County, the State of Texas, or any entity other than the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect taxes levied on taxable property within the District sufficient to meet debt service requirements and on the value of taxable property with respect to taxes levied by the District or by similar taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the construction of taxable improvements, accumulation of taxable personal property or continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners.

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

**Location and Access:** The District is located in an outlying area of the Houston metropolitan area, approximately 24 miles west from the central business district of the City of Houston, adjacent to Interstate Highway 10. The mixed use developments with whom the District competes may be in a more convenient location or have better access. As a result, particularly during times of increased competition, the developments within the District may be at a competitive disadvantage to the developments in other mixed-use projects located closer to major urban centers. See “THE DISTRICT.”

**Competition:** The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition from other established commercial, retail, multi-family and single-family developments, new commercial, retail, multi-family and single-family developments could be developed to create more competition.

**Maximum Impact on District Tax Rates:** Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2018 Assessed Valuation of the District is \$910,765,280 (see “TAX DATA”). After issuance of the Bonds, the maximum annual debt service requirement on the Remaining Outstanding Bonds and the Bonds is \$2,313,863 (2036) and the average annual debt service requirement on the Remaining Outstanding Bonds and the Bonds (2019–2036) is \$2,185,463.

Based on the 2018 Assessed Valuation and no use of funds on hand, a tax rate of \$0.27 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,313,863 and a tax rate of \$0.26 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$2,185,463. For 2018, the District levied a debt service tax rate of \$0.225 per \$100 assessed valuation. See “DEBT SERVICE REQUIREMENTS” and “TAX DATA – Tax Rate Calculations.”

## **Hurricane Harvey**

On August 26, 2017, Hurricane Harvey (“Harvey”) made landfall on the Texas Gulf Coast, severely impacting the entire region, including the District. While the District did **not** sustain any major damage due to wind or flooding, portions of the surrounding area were impacted. The greater Houston area and the Texas Gulf Coast economies may be negatively affected in the near future as a result of Harvey, but any impact this may have on the District cannot be determined at this time. See “TAXING Procedures – Valuation of Property for Taxation.”

## **Material Weakness**

The firm of McGrath & Co., PLLC, Certified Public Accountants, prepared the annual audit for the District for the fiscal year ended February 28, 2017. During the audit process, the Auditor discovered the District’s bookkeeper (“McLennan and Associates”) had deficient internal controls such that the District’s cash disbursements may have not been properly recorded in the District’s accounting system which could result in an overstatement of cash and an understatement of expenditures/expenses or liabilities. McLennan and Associates also did not perform bank/investment account reconciliations in a timely manner which could result in errors in banks statements that remain undetected, material misstatements in the financial statements and the misappropriation of District financial resources. Although inconsistencies were discovered, the District’s auditor has provided an opinion that the financial statements were presented fairly, in all material respects and in conformity with accounting principles generally accepted in the United States of America. Due to these inconsistencies, the District has since terminated its contract with McLennan and Associates and engaged Municipal Accounts & Consulting, LP as the District’s Bookkeeper.

## **Tax Collections 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 state and local taxing authorities on the property against which

taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within six (6) months for commercial property and two (2) years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale.

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 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 (2) other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six (6) years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no provision for 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. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS – Registered Owners' Remedies."

### **Future Debt**

The Bonds constitute the eighth series of bonds issued by the District for refunding purposes. Voters in the District have authorized a total of \$6,000,000 principal amount of refunding bonds; \$10,000,000 principal amount of unlimited tax and refunding bonds, and \$40,670,000 principal amount of combination unlimited tax and revenue bonds. Following the issuance of the Bonds, \$134,610 principal amount of refunding bonds, \$365,000 principal amount of unlimited tax and refunding bonds, and \$1,325,000 principal amount of combination unlimited tax and revenue bonds will remain authorized and unissued.

In addition, the District has the right to issue obligations, other than the Bonds, including revenue notes, tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. 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. The District does not employ any formula with respect to assessed valuations, tax collections or other factors to limit the amount of parity bonds which it may issue.

## Environmental and Air Quality Regulations

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

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

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

*Air Quality 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.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

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. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

### **Subsidence and Conversion to Surface Water Supply**

The District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is not located within the boundaries of the Authority, but has entered into a contract to be included in the Authority’s GRP (defined below). The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP.

The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates,

charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$9.00 per 1,000 gallons effective January 1, 2019 ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

### **Marketability of the Bonds**

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

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no provision for 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. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Bankruptcy Limitation to Registered Owners' Rights."

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

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

### **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

### **Annexation and Consolidation**

The District lies within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"). Under Texas law, a district situated in the extraterritorial jurisdiction of a home-rule city may be annexed in whole, but not in part, by the city without the District's consent, in which case the City must assume the assets, functions and obligations of the district, including the district's outstanding bonds. No representation is made concerning the ability of the City to make debt service payments should annexation occur.

Under Texas law, the District may be consolidated with other municipal utility districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more other districts, although no consolidation is presently contemplated by the District.

The District has entered into a "strategic partnership agreement" (the "SPA") with the City. Under the SPA, the City annexed certain commercial areas of the District for limited purposes of applying certain City planning, zoning, health and safety ordinances in the area annexed for limited purposes. The City imposes its one percent (1%) sales tax in the areas annexed for limited purposes. In the SPA, the City has agreed to rebate to the District one-half (1/2) of all sales tax revenues collected by the City in the area annexed for limited purposes. In addition, the City has agreed that it will not annex the District for full purposes (a traditional annexation) for thirty years from the effective date of the SPA. See "THE DISTRICT - Strategic Partnership Agreement."

### **Bond Insurance Risk Factors**

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

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

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

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

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

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

### **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.

## **LEGAL MATTERS**

### **Legal Opinions**

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 legal 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 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.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS (except for information under the subheading "- Book-Entry-Only System"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "LEGAL MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the

transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **No-Litigation Certificate**

The District will furnish the Underwriters a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

### **No Material Adverse Change**

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

## **TAX MATTERS**

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

The Internal Revenue Code of 1986, 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 Underwriter, with respect to matters solely within the knowledge of the District, the District's Financial Advisor, and the Underwriter, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report of Grant Thornton LLP, Verification Agent, regarding the mathematical accuracy of certain computations. 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 taxpayers 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 thereof. 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 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.

#### **VERIFICATION OF MATHEMATICAL CALCULATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) computation of the adequacy of the amounts to be held by the paying agent of the Refunded Bonds and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yields on the Bonds, and (c) certain requirements of the City of Houston ordinances relating to the refunding of indebtedness was verified by Grant Thornton LLP. The computations were independently verified by Grant Thornton LLP, based upon certain assumptions and information supplied by the Financial Advisor on behalf of the District, and the District. Grant Thornton LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

#### **CONTINUING DISCLOSURE OF INFORMATION**

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

#### **Annual Reports**

The District will provide certain updated financial information and operating data to EMMA annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “DISTRICT DEBT” (except under the subheading “Estimated Overlapping Debt Statement”), “TAX DATA,” and “APPENDIX A.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019.

Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report becomes available.

On June 19, 2013, the District changed its fiscal year end date from September 30 to 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 EMMA of the change.

### **Material Event Notices**

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

### **Availability of Information from EMMA**

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the



agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance with Prior Undertakings**

The District failed to timely file notice of its bond insurer rating change that occurred on March 18, 2014, as the District filed such notice thirty-one (31) days after the rating change. Except to the extent the preceding is deemed to be material, the District has not failed to comply in the previous five years in all material respects any previous undertakings under SEC Rule 15c2-12. The District has reviewed its continuing disclosure responsibilities in order to help ensure compliance in the future.

## **OFFICIAL STATEMENT**

### **General**

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

### **Experts**

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT - Description," "DEVELOPMENT WITHIN THE DISTRICT," and "THE SYSTEM" has been provided by the District Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the Harris County Appraisal District and the Fort Bend County Appraisal District. Such information has been included herein in reliance upon their authority as an expert in the field of tax assessing and real property appraised.

### **Certification as to Official Statement**

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

### **Updating of Official Statement**

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement

satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriters, unless the Underwriters notify the District in writing 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

**CONCLUDING STATEMENT**

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Cimarron Municipal Utility District of Harris County, Texas as of the date shown on the first page hereof.

/s/ Richard May  
President, Board of Directors  
Cimarron Municipal Utility District of Harris County, Texas

ATTEST:

/s/ David Aitken  
Secretary, Board of Directors  
Cimarron Municipal Utility District of Harris County, Texas

**APPENDIX A**  
**Financial Statements of the District**

**CIMARRON MUNICIPAL  
UTILITY DISTRICT**

**HARRIS AND FORT BEND COUNTIES, TEXAS**

**FINANCIAL REPORT**

**February 28, 2018**

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# 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

## Independent Auditors' Report

Board of Directors  
Cimarron Municipal Utility District  
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Cimarron Municipal Utility District, 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  
Cimarron Municipal Utility District  
Harris and Fort Bend Counties, 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 Cimarron Municipal Utility District, 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. G. Gatt & Co., P.C.*

Houston, Texas  
June 20, 2018

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



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***Cimarron Municipal Utility District  
Management's Discussion and Analysis  
February 28, 2018***

## **Using this Annual Report**

Within this section of the financial report of Cimarron Municipal Utility District (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.

***Cimarron Municipal Utility District  
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 \$2,591,702. 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	\$ 7,600,570	\$ 6,878,892
Capital assets	18,850,589	18,903,844
Total assets	<u>26,451,159</u>	<u>25,782,736</u>
Total deferred outflows of resources	<u>311,936</u>	<u>117,329</u>
Current liabilities	1,592,991	1,463,823
Long-term liabilities	27,761,806	28,377,059
Total liabilities	<u>29,354,797</u>	<u>29,840,882</u>
Net position		
Net investment in capital assets	(7,914,279)	(8,347,394)
Restricted	2,169,080	2,147,698
Unrestricted	3,153,497	2,258,879
Total net position	<u>\$ (2,591,702)</u>	<u>\$ (3,940,817)</u>

***Cimarron Municipal Utility District  
Management's Discussion and Analysis  
February 28, 2018***

The total net position of the District increased during the current fiscal year by \$1,349,115. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2018</u>	<u>2017</u>
Revenues		
Water and sewer service	\$ 1,398,955	\$ 1,278,156
Property taxes, penalties and interest	3,244,737	3,121,344
Other	<u>2,546,420</u>	<u>2,591,379</u>
Total revenues	<u>7,190,112</u>	<u>6,990,879</u>
Expenses		
Current service operations	3,991,662	3,752,389
Debt interest and fees	1,083,503	1,153,272
Developer interest	100,339	200,987
Debt issuance costs	264,429	
Intergovernmental		258,590
Depreciation	<u>401,064</u>	<u>393,354</u>
Total expenses	<u>5,840,997</u>	<u>5,758,592</u>
Change in net position	1,349,115	1,232,287
Net position, beginning of year	<u>(3,940,817)</u>	<u>(5,173,104)</u>
Net position, end of year	<u>\$ (2,591,702)</u>	<u>\$ (3,940,817)</u>

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

The District's combined fund balances, as of February 28, 2018, were \$6,878,070, which consists of \$4,677,745 in the General Fund, \$2,037,640 in the Debt Service Fund, and \$162,685 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:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 5,141,820</u>	<u>\$ 4,313,616</u>
Total liabilities	\$ 316,006	\$ 328,769
Total deferred inflows	148,069	74,751
Total fund balance	<u>4,677,745</u>	<u>3,910,096</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,141,820</u>	<u>\$ 4,313,616</u>

***Cimarron Municipal Utility District  
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:

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 4,457,618	\$ 3,932,602
Total expenditures	(3,689,969)	(3,171,027)
Revenues over expenditures	<u>\$ 767,649</u>	<u>\$ 761,575</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District’s primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and City of Houston sales tax rebates. 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. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year.
- Water, sewer and Regional Water Authority revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District’s control.
- Sales tax rebates received from the City of Houston under a Strategic Partnership Agreement are dependent on consumer spending at retail stores located within the District’s boundaries and will fluctuate from year to year.

*Debt Service Fund*

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

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 2,228,579</u>	<u>\$ 2,161,681</u>
Total liabilities	\$ 59,499	\$ 13,983
Total deferred inflows	131,440	122,425
Total fund balance	<u>2,037,640</u>	<u>2,025,273</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,228,579</u>	<u>\$ 2,161,681</u>

***Cimarron Municipal Utility District  
Management's Discussion and Analysis  
February 28, 2018***

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

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 2,254,301	\$ 2,372,424
Total expenditures	<u>(2,350,028)</u>	<u>(2,167,580)</u>
Revenues over/(under) expenditures	\$ (95,727)	\$ 204,844
Other changes in fund balance	108,094	
Net change in fund balance	<u>\$ 12,367</u>	<u>\$ 204,844</u>

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

During the current year, the District issued \$4,155,000 in refunding bonds to refund \$3,925,000 of its outstanding Series 2010 bonds. This refunding will save the District \$277,544 in 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:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 167,185</u>	<u>\$ 327,524</u>
Total liabilities	\$ 4,500	\$ -
Total fund balance	<u>162,685</u>	<u>327,524</u>
Total liabilities and fund balance	<u>\$ 167,185</u>	<u>\$ 327,524</u>

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

	<u>2018</u>	<u>2017</u>
Total revenues	\$ 545	\$ 1,569
Total expenditures	<u>(1,380,384)</u>	<u>(1,293,982)</u>
Revenues under expenditures	(1,379,839)	(1,292,413)
Other changes in fund balance	1,215,000	
Net change in fund balance	<u>\$ (164,839)</u>	<u>\$ (1,292,413)</u>

***Cimarron Municipal Utility District  
Management’s Discussion and Analysis  
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During the current year, the District issued its \$1,215,000 Series 2017 Unlimited Tax Bonds to reimburse developers for the cost of capital assets constructed within the District. The District’s capital asset activity in the previous fiscal year was for improvements to existing facilities.

*Special Revenue Fund*

The District uses a Special Revenue Fund to account for the activities of a water plant jointly owned by the District and Harris - Fort Bend Counties Municipal Utility District No. 3. A comparative summary of the Special Revenue Fund’s financial position as of February 28, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 159,918</u>	<u>\$ 173,003</u>
Total liabilities	<u>\$ 159,918</u>	<u>\$ 173,003</u>

A comparative summary of activities for the Special Revenue Fund’s current and prior fiscal year is as follows:

	<u>2018</u>	<u>2017</u>
Total revenues	<u>\$ 395,316</u>	<u>\$ 660,743</u>
Total expenditures	<u>(395,316)</u>	<u>(660,743)</u>
Revenues over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>

Revenues in the Special Revenue Fund primarily consist of charges to participants. The amount the District charges is based upon the actual cost of providing services. Consequently, revenues will equal expenditures each year.

**General Fund Budgetary Highlights**

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

Since the District’s budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$541,908 greater than budgeted. The *Budgetary Comparison Schedule* on page 38 of this report provides variance information per financial statement line item.

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**Capital Assets**

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

	2018	2017
Capital assets not being depreciated		
Land and improvements	\$ 8,124,046	\$ 8,124,046
Construction in progress	46,344	45,603
	<u>8,170,390</u>	<u>8,169,649</u>
Capital assets being depreciated		
Infrastructure	15,138,772	14,791,704
Investment in regional facilities	2,497,157	2,497,157
	<u>17,635,929</u>	<u>17,288,861</u>
Less accumulated depreciation		
Infrastructure	(6,529,436)	(6,183,864)
Investment in regional facilities	(426,294)	(370,802)
	<u>(6,955,730)</u>	<u>(6,554,666)</u>
Depreciable capital assets, net	<u>10,680,199</u>	<u>10,734,195</u>
Capital assets, net	<u>\$ 18,850,589</u>	<u>\$ 18,903,844</u>

Capital asset additions during the current year primarily consist of the following:

- water plant 2 paving improvements,
- drainage channel storm outfall improvements, and
- Red River sanitary sewer rehabilitation.

The District's construction in progress is for engineering and construction costs related to the emergency generator for the regional facilities shared with West Memorial Municipal Utility District.

**Long-Term Debt and Related Liabilities**

As of February 28, 2018, the District owes \$80,000 to developers for completed infrastructure projects, pending acceptance of storm sewer in Grand Crossing by Harris County. The District intends to reimburse the developers from surplus general operating funds pending Harris County acceptance of the facilities.



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

Series	2018	2017
2010	\$ 790,000	\$ 4,840,000
2011	10,055,000	10,220,000
2013	2,375,000	2,465,000
2014 Refunding	5,475,000	5,955,000
2015	5,240,000	5,425,000
2017 Refunding	4,110,000	
2017	1,160,000	
	<u>\$ 29,205,000</u>	<u>\$ 28,905,000</u>

During the year, the District issued \$4,155,000 in unlimited tax refunding bonds and \$1,215,000 in unlimited tax bonds for water, sewer, and drainage purposes. At February 28, 2018, the District had \$1,325,000 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 \$495,000 for refunding purposes.

**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, water/sewer services and City of Houston sales tax rebates 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:

	2018 Actual	2019 Budget
Total revenues	\$ 4,457,618	\$ 4,406,334
Total expenditures	(3,689,969)	(4,300,865)
Revenues over expenditures	767,649	105,469
Beginning fund balance	3,910,096	4,677,745
Ending fund balance	<u>\$ 4,677,745</u>	<u>\$ 4,783,214</u>

## **Basic Financial Statements**

**Cimarron Municipal Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**February 28, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
<b>Assets</b>					
Cash and investments	\$ 4,508,185	\$ 2,117,403	\$ 71,360	\$ 146,337	\$ 6,843,285
Taxes receivable, net	37,977	131,440			169,417
Customer service receivables, net	191,527				191,527
Due from City of Houston	192,668				192,668
Internal balances	(49,104)	(20,264)	95,825	(26,457)	
Other receivables	3,000				3,000
Due from other districts				40,038	40,038
Prepaid items	11,528				11,528
Operating Reserve - West Memorial Treatment Plant	149,107				149,107
Operating Reserve - Water plant	96,932				96,932
Capital assets not being depreciated					
Capital assets, net					
Total Assets	<u>\$ 5,141,820</u>	<u>\$ 2,228,579</u>	<u>\$ 167,185</u>	<u>\$ 159,918</u>	<u>\$ 7,697,502</u>
<b>Deferred Outflows of Resources</b>					
Deferred difference on refunding					
<b>Liabilities</b>					
Accounts payable	\$ 290,266	\$ -	\$ 4,500	\$ 10,882	\$ 305,648
Other payables		59,499			59,499
Operating reserve				149,036	149,036
Customer deposits	21,000				21,000
Builder deposits	4,740				4,740
Due to developers					
Long-term debt					
Due within one year					
Due after one year					
Total Liabilities	<u>316,006</u>	<u>59,499</u>	<u>4,500</u>	<u>159,918</u>	<u>539,923</u>
<b>Deferred Inflows of Resources</b>					
Deferred property taxes	37,977	131,440			169,417
Deferred City of Houston sales tax	110,092				110,092
	<u>148,069</u>	<u>131,440</u>			<u>279,509</u>
<b>Fund Balances/Net Position</b>					
<b>Fund Balances</b>					
Nonspendable	257,567				257,567
Restricted		2,037,640	162,685		2,200,325
Committed	80,000				80,000
Unassigned	4,340,178				4,340,178
Total Fund Balances	<u>4,677,745</u>	<u>2,037,640</u>	<u>162,685</u>		<u>6,878,070</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,141,820</u>	<u>\$ 2,228,579</u>	<u>\$ 167,185</u>	<u>\$ 159,918</u>	<u>\$ 7,697,502</u>
<b>Net Position</b>					
Net investment in capital assets					
Restricted for debt service					
Unrestricted					
Total Net Position					
See notes to basic financial statements.					

Adjustments	Statement of Net Position
\$ -	\$ 6,843,285
	169,417
	191,527
	192,668
	3,000
	40,038
	11,528
	149,107
(96,932)	
8,170,390	8,170,390
10,680,199	10,680,199
<u>18,753,657</u>	<u>26,451,159</u>
311,936	311,936
	305,648
	59,499
(96,932)	52,104
	21,000
	4,740
80,000	80,000
1,150,000	1,150,000
27,681,806	27,681,806
<u>28,814,874</u>	<u>29,354,797</u>
(169,417)	
<u>(110,092)</u>	
<u>(279,509)</u>	
(257,567)	
(2,200,325)	
(80,000)	
<u>(4,340,178)</u>	
<u>(6,878,070)</u>	
(7,914,279)	(7,914,279)
2,169,080	2,169,080
3,153,497	3,153,497
<u>\$ (2,591,702)</u>	<u>\$ (2,591,702)</u>

**Cimarron Municipal Utility District**

**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	Special Revenue Fund	Total
<b>Revenues</b>					
Water service	\$ 588,522	\$ -	\$ -	\$ -	\$ 588,522
Sewer service	810,433				810,433
Garbage service	138,795				138,795
Property taxes	944,956	2,207,799			3,152,755
Penalties and interest	43,041	24,869			67,910
Water supply				395,204	395,204
Tap connection and inspection	306,535				306,535
City of Houston sales tax rebate	707,596				707,596
Regional Water Authority fees	863,847				863,847
Miscellaneous	27,195	9,230			36,425
Investment earnings	26,698	12,403	545	112	39,758
<b>Total Revenues</b>	<b>4,457,618</b>	<b>2,254,301</b>	<b>545</b>	<b>395,316</b>	<b>7,107,780</b>
<b>Expenditures/Expenses</b>					
Current service operations					
Purchased services	893,494				893,494
Professional fees	162,256			5,088	167,344
Contracted services	548,678	54,586		12,032	615,296
Repairs and maintenance	628,483		86,839	91,426	806,748
Utilities	155,227			33,179	188,406
Regional Water Authority fees	826,308			250,069	1,076,377
Administrative	99,956	8,686	126	3,522	112,290
Other	31,707				31,707
Economic development grant	100,000				100,000
Capital outlay	243,860		1,040,434		1,284,294
Debt service					
Principal		1,145,000			1,145,000
Interest and fees		1,029,973			1,029,973
Developer interest			100,339		100,339
Debt issuance costs		111,783	152,646		264,429
Depreciation					
<b>Total Expenditures/Expenses</b>	<b>3,689,969</b>	<b>2,350,028</b>	<b>1,380,384</b>	<b>395,316</b>	<b>7,815,697</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>767,649</b>	<b>(95,727)</b>	<b>(1,379,839)</b>		<b>(707,917)</b>
<b>Other Financing Sources/(Uses)</b>					
Proceeds from sale of bonds			1,215,000		1,215,000
Proceeds from sale of refunding bonds		4,155,000			4,155,000
Payment to refunded bond escrow agent		(4,046,906)			(4,046,906)
<b>Net Change in Fund Balances</b>	<b>767,649</b>	<b>12,367</b>	<b>(164,839)</b>		<b>615,177</b>
<b>Change in Net Position</b>					
Fund Balance/Net Position					
Beginning of the period	3,910,096	2,025,273	327,524		6,262,893
<b>End of the period</b>	<b>\$ 4,677,745</b>	<b>\$ 2,037,640</b>	<b>\$ 162,685</b>	<b>\$ -</b>	<b>\$ 6,878,070</b>

See notes to basic financial statements.

Adjustments	Statement of Activities
\$ -	\$ 588,522
	810,433
	138,795
20,889	3,173,644
3,183	71,093
	395,204
	306,535
58,260	765,856
	863,847
	36,425
	39,758
<u>82,332</u>	<u>7,190,112</u>
	893,494
	167,344
	615,296
	806,748
	188,406
	1,076,377
	112,290
	31,707
	100,000
(1,284,294)	
(1,145,000)	
53,530	1,083,503
	100,339
	264,429
401,064	401,064
<u>(1,974,700)</u>	<u>5,840,997</u>
707,917	
(1,215,000)	
(4,155,000)	
<u>4,046,906</u>	
(615,177)	
1,349,115	1,349,115
<u>(10,203,710)</u>	<u>(3,940,817)</u>
<u>\$ (9,469,772)</u>	<u>\$ (2,591,702)</u>

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***Cimarron Municipal Utility District***  
***Notes to Basic Financial Statements***  
***February 28, 2018***

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

The accounting policies of Cimarron Municipal Utility District (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

**Creation**

The District was organized, created and established pursuant to an order of the Texas Water Rights Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated February 9, 1976, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on December 7, 1976 and the first bonds were sold on December 1, 1977.

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

**Reporting Entity**

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

**Government-Wide and Fund Financial Statements**

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

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



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

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

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

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes, water and sewer service fees and City of Houston sales tax rebates. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.
- The Special Revenue Fund is used to account for the operation and maintenance of water plant no. 3, which is jointly owned by the District and Harris-Fort Bend Counties Municipal Utility District No. 3. See Note 11 for additional information.

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

**Measurement Focus and Basis of Accounting**

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

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

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

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

**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.

**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 of \$15,800 and \$4,000 were provided for possible uncollectible property taxes and water/sewer accounts, respectively.

**Interfund Activity**

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

**Capital Assets**

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

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

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	20-45 years
Investment in regional facilities	45 years

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

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

**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.

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

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

**Net Position – Governmental Activities**

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

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

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

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items and operating reserves paid West Memorial Municipal Utility District and to the Special Revenue Fund for the joint water plant.

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

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

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

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's committed fund balance consists of surplus general operating funds committed for developer reimbursements. This reimbursement is pending Harris County acceptance of the facilities.

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

Unassigned - all other spendable amounts in the General Fund.

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

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables and the useful lives and impairment of capital assets. 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.

*Cimarron Municipal Utility District  
Notes to Basic Financial Statements  
February 28, 2018*

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

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

Total fund balance, governmental funds	\$ 6,878,070
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 25,806,319	
Less accumulated depreciation	<u>(6,955,730)</u>	
Change due to capital assets		18,850,589

The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.	311,936
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Amounts due to the District's developers for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> .	(80,000)
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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.	(28,831,806)
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Receivables that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and are deferred in the funds.

Property taxes	169,417	
City of Houston sales tax receipts	<u>110,092</u>	
		279,509

Total net position - governmental activities	<u><u>\$ (2,591,702)</u></u>
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*Cimarron Municipal Utility District  
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 \$ 615,177

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for:

Property taxes and related penalties and interest	\$ 24,072	
City of Houston sales tax rebates	<u>58,260</u>	
		82,332

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

Capital outlays	1,284,294	
Depreciation expense	<u>(401,064)</u>	
		883,230

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

Principal payments	1,145,000	
Interest expense accrual	(53,530)	
Proceeds from sale of bonds	(1,215,000)	
Proceeds from sale of refunding bonds	(4,155,000)	
Payment to refunded bond escrow agent	<u>4,046,906</u>	
		(231,624)

Change in net position of governmental activities	\$ 1,349,115
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*Cimarron Municipal Utility District  
 Notes to Basic Financial Statements  
 February 28, 2018*

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

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

**Investments**

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

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

As of February 28, 2018, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 2,905,055	AAAm	27 days
	Debt Service	865,214		
	Capital Projects	52		
		<u>\$ 3,770,321</u>		

*Cimarron Municipal Utility District  
 Notes to Basic Financial Statements  
 February 28, 2018*

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

**TexPool**

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

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

**Investment Credit and Interest Rate Risk**

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

**Note 4 – Interfund Balances and Transactions**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 23,452	Maintenance tax collections not remitted as of year end
General Fund	Capital Projects Fund	14,205	Bond application fees and capital outlay paid by the General Fund
Debt Service Fund	General Fund	3,188	Proceeds from the sale of refunding bonds in excess of bond application fees paid by the General Fund
General Fund	Special Revenue Fund	26,457	Joint water plant participant billings/credits
Capital Projects Fund	General Fund	110,030	Reimbursement of transfer to General Fund during previous fiscal year.

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



***Cimarron Municipal Utility District***  
***Notes to Basic Financial Statements***  
***February 28, 2018***

**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	Retirements	Ending Balances
Capital assets not being depreciated				
Land and improvements	\$ 8,124,046	\$ -	\$ -	\$ 8,124,046
Construction in progress	45,603	46,344	(45,603)	46,344
	<u>8,169,649</u>	<u>46,344</u>	<u>(45,603)</u>	<u>8,170,390</u>
Capital assets being depreciated				
Infrastructure	14,791,704	347,068		15,138,772
Investment in regional facilities	2,497,157			2,497,157
	<u>17,288,861</u>	<u>347,068</u>		<u>17,635,929</u>
Less accumulated depreciation				
Infrastructure	(6,183,864)	(345,572)		(6,529,436)
Investment in regional facilities	(370,802)	(55,492)		(426,294)
	<u>(6,554,666)</u>	<u>(401,064)</u>		<u>(6,955,730)</u>
Subtotal depreciable capital assets, net	<u>10,734,195</u>	<u>(53,996)</u>		<u>10,680,199</u>
Capital assets, net	<u>\$ 18,903,844</u>	<u>\$ (7,652)</u>	<u>\$ (45,603)</u>	<u>\$ 18,850,589</u>

Depreciation expense for the current year was \$401,064.

**Note 6 – Due to Developers**

The District has entered into financing agreements with developers of property within the District for the financing of the construction of water, sewer and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from 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.

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

Due to developers, beginning of year	\$ 1,016,485
Developer reimbursements	(1,085,754)
Developer funded adjustments	149,269
Due to developers, end of year	<u>\$ 80,000</u>

*Cimarron Municipal Utility District  
Notes to Basic Financial Statements  
February 28, 2018*

**Note 7 – Long–Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 29,205,000
Unamortized discounts	(402,561)
Unamortized premium	29,367
	<u>\$ 28,831,806</u>
Due within one year	<u>\$ 1,150,000</u>

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
2010	\$ 790,000	\$ 5,130,000	3.50% - 4.00%	March 1, 2018/2024	September 1, March 1	March 1, 2018
2011	10,055,000	10,525,000	4.00% - 5.50%	March 1, 2016/2036	September 1, March 1	March 1, 2019
2013	2,375,000	2,630,000	2.00% - 4.375%	March 1, 2016/2036	September 1, March 1	March 1, 2021
2014 Refunding	5,475,000	6,585,000	2.00% - 3.125%	March 1, 2015/2031	September 1, March 1	March 1, 2023
2015	5,240,000	5,790,000	2.00% - 3.250%	March 1, 2016/2036	September 1, March 1	March 1, 2024
2017 Refunding	4,110,000	4,155,000	2.76%	March 1, 2018/2031	September 1, March 1	March 1, 2025
2017	1,160,000	1,215,000	2.00% - 4.50%	March 1, 2018/2036	September 1, March 1	March 1, 2025
	<u>\$ 29,205,000</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 unlimited tax and revenue bonds in the amount of \$1,325,000 for water, sewer and drainage facilities, unlimited tax bonds in the amount of \$365,000 for water, sewer and drainage facilities and \$495,000 for refunding purposes.

*Cimarron Municipal Utility District*  
*Notes to Basic Financial Statements*  
*February 28, 2018*

**Note 7 – Long-Term Debt (continued)**

On May 17, 2017, the District issued its \$4,155,000 Series 2017 Unlimited Tax Refunding Bonds at a net effective interest rate of 3.038311% to advance refund \$3,925,000 of outstanding Series 2010 bonds. The District advance refunded the bonds to reduce total debt service payments over future years by approximately \$277,544 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$227,273. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements. As of February 28, 2018, the outstanding principal of defeased bonds is \$3,925,000.

On December 13, 2017, the District issued its \$1,215,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.297235%. Proceeds of the bonds were used to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds.

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

Bonds payable, beginning of period	\$ 28,905,000
Bonds issued	5,370,000
Bonds retired	(1,145,000)
Bonds refunded	<u>(3,925,000)</u>
Bonds payable, end of period	<u><u>\$ 29,205,000</u></u>

*Cimarron Municipal Utility District  
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:

Year	Principal	Interest	Totals
2019	\$ 1,150,000	\$ 1,049,688	\$ 2,199,688
2020	1,190,000	1,019,822	2,209,822
2021	1,220,000	986,990	2,206,990
2022	1,275,000	949,662	2,224,662
2023	1,315,000	912,761	2,227,761
2024	1,365,000	870,730	2,235,730
2025	1,425,000	827,082	2,252,082
2026	1,475,000	782,514	2,257,514
2027	1,525,000	736,183	2,261,183
2028	1,585,000	688,708	2,273,708
2029	1,650,000	638,761	2,288,761
2030	1,720,000	586,606	2,306,606
2031	1,775,000	531,551	2,306,551
2032	1,895,000	473,873	2,368,873
2033	1,995,000	391,124	2,386,124
2034	2,105,000	303,855	2,408,855
2035	2,210,000	207,718	2,417,718
2036	2,330,000	106,625	2,436,625
	<u>\$ 29,205,000</u>	<u>\$ 12,064,253</u>	<u>\$ 41,269,253</u>

**Note 8 – Property Taxes**

On January 25, 1977, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations 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.

All property values and exempt status, if any, are determined by the Harris County Appraisal District and the Fort Bend Central 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.

***Cimarron Municipal Utility District  
Notes to Basic Financial Statements  
February 28, 2018***

**Note 8 – Property Taxes (continued)**

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 \$0.365 per \$100 of assessed value, of which \$0.11 was allocated to maintenance and operations and \$0.255 was allocated to debt service. The resulting tax levy was \$3,212,518 on the adjusted taxable value of \$880,142,039.

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

Current year taxes receivable	\$ 95,686
Prior years taxes receivable	61,112
Less allowance for uncollectible accounts	<u>(15,800)</u>
	140,998
Penalty and interest receivable	<u>28,419</u>
Net property taxes receivable	<u><u>\$ 169,417</u></u>

**Note 9 – Strategic Partnership Agreement**

Effective April 10, 2003, as subsequently amended, the District and the City of Houston (the “City”) entered into a Strategic Partnership Agreement (the “Agreement”) under which the City annexed certain commercial areas of the District for the limited purposes of applying the City’s planning, zoning, health and safety ordinances within the District. The District continues to exercise all powers and functions of a municipal utility district. As consideration for the District providing services described in the Agreement, the City agreed to remit one half of all retail sales taxes collected from retailers in the area annexed. The City agrees that it will not annex all or part of the District during the term of this agreement which is thirty years. During the current year, the District recognized \$707,596 in City of Houston sales tax revenues.

**Note 10 – Financing and Operation of Regional Facilities**

On August 30, 1983, as subsequently amended, the District entered into a thirty-five year agreement with West Memorial Municipal Utility District (“West Memorial”), Interstate Municipal Utility District, Mason Creek Utility District and Harris County Municipal Utility District No. 81, whereby West Memorial agreed to provide the regional wastewater treatment and disposal facilities necessary to serve the participants. West Memorial has oversight responsibilities and holds title to the facilities for the benefit of the participating Districts.

*Cimarron Municipal Utility District  
Notes to Basic Financial Statements  
February 28, 2018*

**Note 10 – Financing and Operation of Regional Facilities (continued)**

The following represents each participant’s capacity and percentage of ownership:

Participant	Million Gallons Capacity	Percent of Ownership
Cimarron Municipal Utility District	2,471,000	38.16%
Interstate Municipal Utility District	1,350,000	20.85%
Harris County Municipal Utility District No. 81	1,255,000	19.38%
Mason Creek Utility District	800,000	12.36%
West Memorial Municipal Utility District	599,000	9.25%
Totals	6,475,000	100.00%

West Memorial operates the regional facilities. Participants are billed monthly based on a contractual formula. During the current year, the District recorded expenditures in the amount of \$563,859 for its share of operating costs. In addition, the District is responsible for its pro rata share of an operating and maintenance reserve, which is equivalent to three months of average budgeted operating and maintenance expenditures. As of February 28, 2018, the District’s share of the operating reserve is \$149,107.

Audited financial statements for the wastewater treatment plant are prepared annually and can be obtained from West Memorial’s attorney. Condensed financial information, as of and for the year ended June 30, 2017, is shown below:

Total Assets	\$ 546,209
Total Liabilities	\$ 113,352
Total Fund Balance - Restricted	432,857
Total Liabilities and Fund Balance	\$ 546,209
Total Revenues	\$ 2,324,488
Total Expenditures	(2,324,488)
Revenues Over Expenditures	
Other Financing Sources - Increase in Operating Reserve	23,020
Net Change in Fund Balance	23,020
Fund Balance, Beginning of Year	409,837
Fund Balance, End of Year	\$ 432,857

**Note 11 – Joint Water Supply Agreement**

On November 17, 2010, the District entered into a Joint Water Plant Operating Agreement, (“the Agreement”) with Harris-Fort Bend Municipal District No. 3 (HFB MUD 3). This Agreement establishes the terms and conditions under which maintenance and operations costs for the joint water plant will be allocated between the districts. The District shall hold legal title for the water plant no. 3 for the benefit of both districts. Each district shall have an undivided equitable interest in the water plant based on the district’s proportionate share of equivalent single family connections. The District has a 65.04% interest in the water plant and HFB MUD 3 has a 34.96% interest in the water plant.

The District has established a Special Revenue Fund to account for activities related to the water plant. Each district is billed monthly for its proportionate share of maintenance and operating expenditures. For the year ended February 28, 2018, the District’s share of the water service billings were \$342,277 and HFB MUD 3’s share of the water service billings were \$52,927. As of February 28, 2018, the District’s and HFB MUD 3’s operating reserves are \$96,932 and \$52,104, respectively.

**Note 12 – West Harris County Regional Water Authority**

The District is within the boundaries of the West Harris County Regional Water Authority (the Authority”), which was created by the Texas Legislature. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Coastal Subsidence District, which regulates groundwater withdrawal. The District passes these costs on to its customers. During the current fiscal year, the District recognized \$863,847 in revenues and \$1,076,377 in expenditures for surface water. As of February 28, 2018, the Authority’s rates are \$2.70 per 1,000 gallons of water pumped from the District’s wells and \$3.10 for surface water delivered by the Authority. These rates have been in effect since January 2018 and are subject to future increases.

**Note 13 – Economic Development Agreement**

On July 17, 2013, the District entered into an Economic Development Agreement with Costco Wholesale Corporation in order to provide a performance-based economic development grant to the developer to defray a portion of the costs incurred by the developer by building a wholesale merchandise facility in the District. Costco will be paid from revenues received from the Strategic Partnership Agreement (“SPA”) between the District and the City of Houston (“the City”). The amount of the Economic Development Grant for a given year shall be equal to fifty percent of the revenue received by the District from the City pursuant to the SPA from Costco, but not to exceed \$100,000. The initial Economic Development Grant payment shall be made within thirty days of the annual anniversary date of the initial sales tax collection by the City from Costco and ends after ten years. During the current fiscal year, the District recognized \$100,000 in payment to Costco.

*Cimarron Municipal Utility District*  
*Notes to Basic Financial Statements*  
*February 28, 2018*

**Note 14 – 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.



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## **Required Supplementary Information**

***Cimarron Municipal Utility District  
Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
For the Year Ended February 28, 2018***

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water service	\$ 576,000	\$ 588,522	\$ 12,522
Sewer service	600,000	810,433	210,433
Garbage service	231,000	138,795	(92,205)
Property taxes	700,900	944,956	244,056
Penalties and interest	48,000	43,041	(4,959)
Tap connection and inspection	19,200	306,535	287,335
City of Houston sales tax rebate	720,000	707,596	(12,404)
Regional Water Authority fees	780,000	863,847	83,847
Miscellaneous	10,800	27,195	16,395
Investment earnings	6,000	26,698	20,698
Total Revenues	<u>3,691,900</u>	<u>4,457,618</u>	<u>765,718</u>
<b>Expenditures</b>			
Current service operations			
Purchased services	1,228,447	893,494	334,953
Professional fees	158,100	162,256	(4,156)
Contracted services	509,504	548,678	(39,174)
Repairs and maintenance	619,410	628,483	(9,073)
Utilities	132,000	155,227	(23,227)
Regional Water Authority fees	300,000	826,308	(526,308)
Administrative	124,698	99,956	24,742
Other	29,000	31,707	(2,707)
Economic development grant		100,000	(100,000)
Capital outlay	365,000	243,860	121,140
Total Expenditures	<u>3,466,159</u>	<u>3,689,969</u>	<u>(223,810)</u>
<b>Revenues Over Expenditures</b>	225,741	767,649	541,908
<b>Fund Balance</b>			
Beginning of the period	3,910,096	3,910,096	
<b>End of the period</b>	<u>\$ 4,135,837</u>	<u>\$ 4,677,745</u>	<u>\$ 541,908</u>

*Cimarron Municipal Utility District  
 Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund  
 For the Year Ended February 28, 2018*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water supply	\$ 764,100	\$ 395,204	\$ (368,896)
Investment earnings		112	112
Total Revenues	<u>764,100</u>	<u>395,316</u>	<u>(368,784)</u>
<b>Expenditures</b>			
Current service operations			
Professional fees	10,900	5,088	5,812
Contracted services	13,360	12,032	1,328
Repairs and maintenance	66,000	91,426	(25,426)
Utilities	55,000	33,179	21,821
Regional Water Authority fees	600,000	250,069	349,931
Administrative	13,540	3,522	10,018
Other	5,300		5,300
Total Expenditures	<u>764,100</u>	<u>395,316</u>	<u>368,784</u>
<b>Revenues Over Expenditures</b>			
<b>Fund Balance:</b>			
Beginning of the period			
End of the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Cimarron Municipal Utility District*  
*Notes to Required Supplementary Information*  
*February 28, 2018*

**Budgets and Budgetary Accounting**

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

## **Texas Supplementary Information**

**Cimarron Municipal Utility District**  
**TSI-1. Services and Rates**  
**February 28, 2018**

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

- 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

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels	
Water:	\$ 9.00	6,000	N	\$ 1.25	6,001	to 10,000
				\$ 1.50	10,001	to 15,000
				\$ 1.75	15,001	to 20,000
				\$ 2.00	20,001	to No limit
Wastewater:	\$ 26.22	- 0 -	Y	N/A	- 0 -	to No limit
Surface water:	\$	- 0 -	N	\$ 2.97	- 0 -	to No limit

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 43.70 Wastewater \$ 26.22

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"	1,500	1,488	x 1.0	1,488
1"	20	20	x 2.5	50
1.5"	31	31	x 5.0	155
2"	83	83	x 8.0	664
3"			x 15.0	
4"	2	2	x 25.0	50
6"	3	3	x 50.0	150
8"	7	7	x 80.0	560
10"			x 115.0	
12"			x 155.0	
Total Water	1,646	1,634		3,117
Total Wastewater	1,571	1,559	x 1.0	1,559

See accompanying auditors' report.

***Cimarron Municipal Utility District***  
***TSI-1. Services and Rates***  
***February 28, 2018***

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

Gallons pumped into system:	<u>433,304,000</u>	Water Accountability Ratio: (Gallons billed/sold// gallons pumped/purchased) <u>94.56%</u>
Gallons billed to customers:	<u>352,154,000</u>	
*Gallons sold:	<u>57,588,000</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 and Fort Bend

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

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

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

ETJs in which the District is located: City of Houston

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

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

\* Gallons sold to Harris-Fort Bend County MUD 3 and Harris County MUD 81

See accompanying auditors' report.



*Cimarron Municipal Utility District  
TSI-2 General Fund Expenditures  
For the Year Ended February 28, 2018*

Purchased services		<u>\$ 893,494</u>
Professional fees		
Legal		94,162
Engineering		51,394
Audit		16,700
		<u>162,256</u>
Contracted services		
Bookkeeping		22,368
Operator		90,140
Garbage collection		235,716
Tap connection and inspection		73,979
Tax assessor collector		3,367
Security		123,108
		<u>548,678</u>
Repairs and maintenance		<u>628,483</u>
Utilities		<u>155,227</u>
Regional Water Authority fees		<u>826,308</u>
Administrative		
Directors fees		19,050
Printing and office supplies		25,223
Insurance		36,585
Other		19,098
		<u>99,956</u>
Other		<u>31,707</u>
Economic development grant		<u>100,000</u>
Capital outlay		<u>243,860</u>
Total expenditures		<u><u>\$ 3,689,969</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	1,408,022 kWh	\$ 155,227
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-3. Investments*  
*February 28, 2018*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General				
TexPool	0792100002	Variable	N/A	\$ 2,905,055
Debt Service				
TexPool	0792100001	Variable	N/A	865,214
Capital Projects				
TexPool	0792100003	Variable	N/A	52
Total - All Funds				\$ 3,770,321

See accompanying auditors' report.

**Cimarron Municipal Utility District**  
**TSI-4. Taxes Levied and Receivable**  
**February 28, 2018**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 22,919	\$ 97,191	\$ 120,110	
Adjustments to Prior Year Tax Levy	(10,241)	(35,342)	(45,583)	
Adjustments to Reserve for Uncollectibles	(101)	(1,826)	(1,927)	
Adjusted Receivable	12,577	60,023	72,600	
2017 Original Tax Levy	918,006	2,128,104	3,046,110	
Adjustments	50,151	116,257	166,408	
Adjusted Tax Levy	968,157	2,244,361	3,212,518	
Total to be accounted for	980,734	2,304,384	3,285,118	
Tax collections:				
Current year	939,319	2,177,513	3,116,832	
Prior years	3,438	23,850	27,288	
Total Collections	942,757	2,201,363	3,144,120	
Taxes Receivable, End of Year	\$ 37,977	\$ 103,021	\$ 140,998	
Taxes Receivable, By Years				
2017	\$ 28,838	\$ 66,848	\$ 95,686	
2016	4,452	14,593	19,045	
2015	1,094	4,648	5,742	
2014 and prior	3,593	16,932	20,525	
Taxes Receivable, End of Year	\$ 37,977	\$ 103,021	\$ 140,998	
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 291,483,902	\$ 273,195,778	\$ 259,081,143	\$ 215,208,726
Improvements	617,465,515	560,889,105	452,431,806	362,570,185
Personal Property	46,721,934	46,950,561	46,146,314	29,830,631
Exemptions	(75,529,312)	(78,734,106)	(83,275,623)	(75,048,338)
Total Property Valuations	\$ 880,142,039	\$ 802,301,338	\$ 674,383,640	\$ 532,561,204
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.110	\$ 0.090	\$ 0.08	\$ 0.03
Debt service tax rates	0.255	0.295	0.34	0.54
Total Tax Rates per \$100 Valuation	\$ 0.365	\$ 0.385	\$ 0.42	\$ 0.57
Adjusted Tax Levy:	\$ 3,212,518	\$ 3,088,860	\$ 2,832,411	\$ 3,035,599
Percentage of Taxes Collected to Taxes Levied **	97.02%	99.38%	99.80%	99.87%

\* Maximum Maintenance Tax Rate Approved by Voters: \$0.25 on January 25, 1977

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

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2010--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 130,000	\$ 27,650	\$ 157,650
2020	125,000	23,100	148,100
2021	130,000	18,725	148,725
2022	135,000	14,175	149,175
2023	135,000	9,450	144,450
2024	135,000	4,724	139,724
	<u>\$ 790,000</u>	<u>\$ 97,824</u>	<u>\$ 887,824</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011--by Years*  
*February 28, 2018*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due March 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 170,000	\$ 479,688	\$ 649,688
2020	180,000	472,888	652,888
2021	180,000	463,888	643,888
2022	190,000	453,988	643,988
2023	195,000	446,388	641,388
2024	205,000	438,588	643,588
2025	215,000	430,388	645,388
2026	220,000	421,788	641,788
2027	220,000	411,888	631,888
2028	220,000	402,538	622,538
2029	220,000	393,188	613,188
2030	220,000	383,562	603,562
2031	220,000	373,662	593,662
2032	1,320,000	363,212	1,683,212
2033	1,395,000	300,512	1,695,512
2034	1,475,000	234,250	1,709,250
2035	1,560,000	160,500	1,720,500
2036	1,650,000	82,500	1,732,500
	<u>\$ 10,055,000</u>	<u>\$ 6,713,416</u>	<u>\$ 16,768,416</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2013--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 90,000	\$ 89,700	\$ 179,700
2020	95,000	87,787	182,787
2021	100,000	85,531	185,531
2022	105,000	82,906	187,906
2023	110,000	79,231	189,231
2024	115,000	75,381	190,381
2025	115,000	71,356	186,356
2026	120,000	67,331	187,331
2027	125,000	63,131	188,131
2028	130,000	58,756	188,756
2029	135,000	53,556	188,556
2030	145,000	48,156	193,156
2031	150,000	42,356	192,356
2032	155,000	36,356	191,356
2033	160,000	29,768	189,768
2034	170,000	22,968	192,968
2035	175,000	15,531	190,531
2036	180,000	7,875	187,875
	<u>\$ 2,375,000</u>	<u>\$ 1,017,676</u>	<u>\$ 3,392,676</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2014 Refunding--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 495,000	\$ 149,469	\$ 644,469
2020	515,000	139,569	654,569
2021	530,000	129,269	659,269
2022	550,000	116,019	666,019
2023	570,000	102,269	672,269
2024	595,000	85,169	680,169
2025	620,000	67,319	687,319
2026	240,000	48,719	288,719
2027	250,000	41,519	291,519
2028	260,000	34,018	294,018
2029	275,000	26,218	301,218
2030	280,000	17,968	297,968
2031	295,000	9,218	304,218
	<u>\$ 5,475,000</u>	<u>\$ 966,743</u>	<u>\$ 6,441,743</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2015--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 195,000	\$ 154,063	\$ 349,063
2020	205,000	150,162	355,162
2021	210,000	146,063	356,063
2022	220,000	141,862	361,862
2023	230,000	137,463	367,463
2024	240,000	130,562	370,562
2025	255,000	123,363	378,363
2026	265,000	115,712	380,712
2027	275,000	107,763	382,763
2028	290,000	99,512	389,512
2029	305,000	90,813	395,813
2030	320,000	81,662	401,662
2031	330,000	72,063	402,063
2032	345,000	61,749	406,749
2033	365,000	50,538	415,538
2034	380,000	38,675	418,675
2035	395,000	26,325	421,325
2036	415,000	13,488	428,488
	<u>\$ 5,240,000</u>	<u>\$ 1,741,838</u>	<u>\$ 6,981,838</u>

See accompanying auditors' report.



*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2017 Refunding--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 20,000	\$ 113,436	\$ 133,436
2020	20,000	112,884	132,884
2021	20,000	112,332	132,332
2022	20,000	111,780	131,780
2023	20,000	111,228	131,228
2024	20,000	110,676	130,676
2025	160,000	110,124	270,124
2026	570,000	105,708	675,708
2027	595,000	89,976	684,976
2028	620,000	73,554	693,554
2029	650,000	56,442	706,442
2030	685,000	38,502	723,502
2031	710,000	19,596	729,596
	<u>\$ 4,110,000</u>	<u>\$ 1,166,238</u>	<u>\$ 5,276,238</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2017--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 50,000	\$ 35,682	\$ 85,682
2020	50,000	33,432	83,432
2021	50,000	31,182	81,182
2022	55,000	28,932	83,932
2023	55,000	26,732	81,732
2024	55,000	25,630	80,630
2025	60,000	24,532	84,532
2026	60,000	23,256	83,256
2027	60,000	21,906	81,906
2028	65,000	20,330	85,330
2029	65,000	18,544	83,544
2030	70,000	16,756	86,756
2031	70,000	14,656	84,656
2032	75,000	12,556	87,556
2033	75,000	10,306	85,306
2034	80,000	7,962	87,962
2035	80,000	5,362	85,362
2036	85,000	2,762	87,762
	<u>\$ 1,160,000</u>	<u>\$ 360,518</u>	<u>\$ 1,520,518</u>

See accompanying auditors' report.

*Cimarron Municipal Utility District*  
*TSI-5. Long-Term Debt Service Requirements*  
*All Bonded Debt Series--by Years*  
*February 28, 2018*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due September 1, March 1	Total
2019	\$ 1,150,000	\$ 1,049,688	\$ 2,199,688
2020	1,190,000	1,019,822	2,209,822
2021	1,220,000	986,990	2,206,990
2022	1,275,000	949,662	2,224,662
2023	1,315,000	912,761	2,227,761
2024	1,365,000	870,730	2,235,730
2025	1,425,000	827,082	2,252,082
2026	1,475,000	782,514	2,257,514
2027	1,525,000	736,183	2,261,183
2028	1,585,000	688,708	2,273,708
2029	1,650,000	638,761	2,288,761
2030	1,720,000	586,606	2,306,606
2031	1,775,000	531,551	2,306,551
2032	1,895,000	473,873	2,368,873
2033	1,995,000	391,124	2,386,124
2034	2,105,000	303,855	2,408,855
2035	2,210,000	207,718	2,417,718
2036	2,330,000	106,625	2,436,625
	<u>\$ 29,205,000</u>	<u>\$ 12,064,253</u>	<u>\$ 41,269,253</u>

See accompanying auditors' report.

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**Cimarron Municipal Utility District**  
**TSI-6. Change in Long-Term Bonded Debt**  
**February 28, 2018**

	Bond Issue			
	Series 2010	Series 2011	Series 2013	Series 2014 Refunding
Interest rate	3.50% - 4.00%	4.00% - 5.50%	2.00% - 4.375%	2.00% - 3.125%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	3/1/18 - 3/1/24	3/1/16 - 3/1/36	3/1/16 - 3/1/36	3/1/15 - 3/1/31
Beginning bonds outstanding	\$ 4,840,000	\$ 10,220,000	\$ 2,465,000	\$ 5,955,000
Bonds issued				
Bonds refunded	(3,925,000)			
Bonds retired	(125,000)	(165,000)	(90,000)	(480,000)
Ending bonds outstanding	<u>\$ 790,000</u>	<u>\$ 10,055,000</u>	<u>\$ 2,375,000</u>	<u>\$ 5,475,000</u>
Interest paid during fiscal year	<u>\$ 32,650</u>	<u>\$ 486,288</u>	<u>\$ 91,500</u>	<u>\$ 159,069</u>
Paying agent's name and city				
Series 2010	Wells Fargo Bank, N.A., Houston, Texas			
Series 2011	Wells Fargo Bank, N.A., Fort Worth, Texas			
Series 2005 Refunding	JP Morgan Chase, Dallas, Texas			
Series 2013, 2014 Refunding, 2015, 2017 Refunding and 2017	Regions Bank, Houston, Texas			
Bond Authority:	WSD Unlimited Tax and Revenue Bonds	WSD Unlimited Tax Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 40,670,000	\$ 10,000,000	\$ 6,000,000	
Amount Issued	(39,345,000)	(9,635,000)	(5,505,000)	
Remaining To Be Issued	<u>\$ 1,325,000</u>	<u>\$ 365,000</u>	<u>\$ 495,000</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 temporary investments balances as of February 28, 2018:	<u>\$ 2,117,403</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 2,292,736</u>

See accompanying auditors' report.

Bond Issue			
Series 2015	Series 2017 Refunding	Series 2017	Totals
2.00% - 3.25%	2.76%	2.00% - 4.50%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
3/1/16 - 3/1/36	3/1/18 - 3/1/31	3/1/18 - 3/1/36	
\$ 5,425,000	\$ -	\$ -	\$ 28,905,000
	4,155,000	1,215,000	5,370,000
			(3,925,000)
(185,000)	(45,000)	(55,000)	(1,145,000)
<u>\$ 5,240,000</u>	<u>\$ 4,110,000</u>	<u>\$ 1,160,000</u>	<u>\$ 29,205,000</u>
<u>\$ 157,763</u>	<u>\$ 90,468</u>	<u>\$ 9,539</u>	<u>\$ 1,027,277</u>

**Cimarron Municipal Utility District**  
**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund**  
**For the Last Five Fiscal Periods**

	Amounts				
	2018	2017	2016	2015	2014**
Revenues					
Water service	\$ 588,522	\$ 578,926	\$ 571,751	\$ 503,607	\$ 677,412
Sewer service	810,433	699,230	637,281	530,503	672,565
Garbage service	138,795	233,360	241,982	279,673	376,801
Property taxes	944,956	696,109	534,724	164,111	263,392
Penalties and interest	43,041	53,734	40,445	39,949	73,209
Tap connection and inspection	306,535	184,467	266,009	166,779	465,425
City of Houston sales tax rebate	707,596	709,850	744,205	603,094	472,235
Regional Water Authority fees	863,847	758,006	721,371	581,974	802,874
Miscellaneous	27,195	12,775	13,478	11,831	24,087
Investment earnings	26,698	6,145	4,051	3,398	5,489
Total Revenues	4,457,618	3,932,602	3,775,297	2,884,919	3,833,489
Expenditures					
Current service operations					
Purchased services	893,494	1,049,280	859,849	717,081	1,114,420
Professional fees	162,256	168,339	204,102	157,082	242,157
Contracted services	548,678	527,338	483,592	395,437	602,844
Repairs and maintenance	628,483	587,416	569,235	443,231	634,186
Utilities	155,227	123,874	122,867	117,800	153,608
Regional Water Authority fees	826,308	320,132	361,866	358,612	358,954
Administrative	99,956	118,755	106,362	88,648	180,359
Other	31,707	26,964	16,122	14,418	
Economic development grant	100,000	100,000	100,000	100,000	
Capital outlay	243,860	148,929		311,283	63,567
Interest					999
Intergovernmental			188,109		
Total Expenditures	3,689,969	3,171,027	3,012,104	2,703,592	3,351,094
Revenues Over Expenditures	\$ 767,649	\$ 761,575	\$ 763,193	\$ 181,327	\$ 482,395

\*Percentage is negligible

\*\*Seventeen month period

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014**
13%	15%	16%	18%	18%
18%	18%	17%	18%	18%
3%	6%	6%	10%	10%
21%	18%	14%	6%	7%
1%	1%	1%	1%	2%
7%	5%	7%	6%	12%
16%	18%	20%	21%	12%
19%	19%	19%	20%	20%
1%	*	*	*	1%
1%	*	*	*	*
100%	100%	100%	100%	100%

20%	27%	23%	25%	29%
4%	4%	5%	5%	6%
12%	13%	13%	14%	16%
14%	15%	15%	15%	17%
3%	3%	3%	4%	4%
19%	8%	10%	12%	9%
2%	3%	3%	3%	5%
1%	1%	*	*	
2%	3%	3%	3%	
5%	4%		11%	2%
				*
		5%		
82%	81%	80%	92%	88%
18%	19%	20%	8%	12%



*Cimarron Municipal Utility District*

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund  
For the Last Five Fiscal Periods*

	Amounts				
	2018	2017	2016	2015	2014**
Revenues					
Property taxes	\$ 2,207,799	\$ 2,334,526	\$ 2,215,879	\$ 2,953,443	\$ 4,735,495
Penalties and interest	24,869	14,009	12,636	19,330	21,938
Accrued interest on bonds sold			13,297	10,491	3,423
Miscellaneous	9,230	19,918		12,835	
Investment earnings	12,403	3,971	2,221	2,384	11,064
Total Revenues	<u>2,254,301</u>	<u>2,372,424</u>	<u>2,244,033</u>	<u>2,998,483</u>	<u>4,771,920</u>
Expenditures					
Tax collection services	63,272	53,830	58,449	49,935	70,071
Debt service					
Principal	1,145,000	1,005,000	990,000	1,795,000	3,200,000
Interest and fees	1,029,973	1,108,750	1,059,413	1,179,481	1,742,593
Debt issuance costs	111,783		1,500	174,605	
Early extinguishment of debt				10,000	
Total Expenditures	<u>2,350,028</u>	<u>2,167,580</u>	<u>2,109,362</u>	<u>3,209,021</u>	<u>5,012,664</u>
Revenues Over/(Under) Expenditures	<u>\$ (95,727)</u>	<u>\$ 204,844</u>	<u>\$ 134,671</u>	<u>\$ (210,538)</u>	<u>\$ (240,744)</u>
Total Active Retail Water Connections	<u>1,634</u>	<u>1,611</u>	<u>1,604</u>	<u>1,596</u>	<u>1,573</u>
Total Active Retail Wastewater Connections	<u>1,559</u>	<u>1,546</u>	<u>1,545</u>	<u>1,534</u>	<u>1,514</u>

\*Percentage is negligible

\*\*Seventeen month period

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014**
98%	98%	98%	99%	99%
1%	1%	1%	1%	1%
		1%	*	*
*	1%		*	
1%	*	*	*	*
100%	100%	100%	100%	100%
3%	2%	3%	2%	1%
51%	42%	44%	60%	67%
46%	47%	47%	39%	37%
5%		*	6%	
			*	
105%	91%	94%	107%	105%
(5%)	9%	6%	(7%)	(5%)

***Cimarron Municipal Utility District  
TSI-8. Board Members, Key Personnel and Consultants  
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 15, 2017  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Richard May	5/16 to 5/20	\$ 1,950	\$ 244	President
David F. Jones	5/14 to 5/18	3,450	332	Vice President
David Aitken	5/16 to 5/20	6,450	2,283	Secretary
John Linn	5/16 to 5/20	5,250	1,155	Assistant Secretary
Gary Russell	11/16 to 5/18	1,950	342	Assistant Vice President
<b>Consultants</b>				
Allen Boone Humphries Robinson LLP <i>General legal fees</i> <i>Bond counsel</i>	2003	<u>Amounts Paid</u> \$ 78,904 87,760		Attorney
Si Environmental, LLC	2012			Operator
Municipal Accounts & Consulting, LP	2017	18,278		Bookkeeper
Bob Leared Interests	1977	28,011		Tax Collector
Harris County Appraisal District	Legislature	21,926		Property Valuation
Fort Bend Central Appraisal District	Legislature	874		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	1996	8,030		Delinquent Tax Attorney
Van De Wiele Engineering, Inc.	1997	66,548		Engineer
McGrath & Co., PLLC	Annual	21,700		Auditor
Robert W. Baird & Co.	2015	68,410		Financial Advisor
McLennan & Associates	2004	18,278		Former Bookkeeper

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

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

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