

**OFFICIAL STATEMENT DATED FEBRUARY 11, 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 have been designated "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

RATINGS: S&P Global Ratings (AGM Insured) ... "AA"  
Moody's (AGM Insured) ..... "A2"  
Moody's (Underlying) ..... "Baa1"  
See "BOND INSURANCE POLICY" and "RATINGS" herein.

**\$2,995,000**

**BAYBROOK MUNICIPAL UTILITY DISTRICT NO. 1**

(A Political Subdivision of the State of Texas Located within Harris County)

**UNLIMITED TAX REFUNDING BONDS**

**SERIES 2019**

Dated: March 1, 2019

Due: May 1, as shown on inside cover

The \$2,995,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"), are obligations of Baybrook Municipal Utility District No. 1 (the "District") and are not obligations of the State of Texas; Harris 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; the City of Houston, Texas; nor 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 to the paying agent/registrars, initially, Zions Bancorporation, National Association, Houston, Texas, (the "Paying Agent/Registrar"). Interest accrues from March 1, 2019, and is payable November 1, 2019, and on each May 1 and November 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/Registrar to registered owners ("Registered Owners") as shown on the records of the Paying Agent/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, upon presentation, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS – Book-Entry-Only System."

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



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

The Bonds constitute the sixth series of unlimited tax refunding bonds issued by the District. The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment." The Bonds are subject to certain investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

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, 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 March 19, 2019.

**SAMCO CAPITAL MARKETS, INC.**

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

Maturity (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 072724 (b)	Maturity (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 072724 (b)
2020	\$35,000	2.000%	2.010%	JT5	2028 (c)	\$205,000	3.000%	3.000%	KB2
2021	35,000	2.000%	2.140%	JU2	2029 (c)	210,000	3.000%	3.100%	KC0
2022	165,000	2.000%	2.220%	JV0	2030 (c)	215,000	3.000%	3.200%	KD8
2023	165,000	2.000%	2.310%	JW8	2031 (c)	225,000	3.000%	3.300%	KE6
2024	170,000	2.250%	2.410%	JX6	2032 (c)	235,000	3.250%	3.420%	KF3
2025	180,000	2.250%	2.520%	JY4	2033 (c)	250,000	3.250%	3.500%	KG1
2026	185,000	2.500%	2.650%	JZ1	2034 (c)	260,000	3.375%	3.560%	KH9
2027	190,000	3.000%	2.800%	KA4	2035 (c)	270,000	3.500%	3.620%	KJ5

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, 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) The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after May 1, 2028, in whole or from time to time in part, on May 1, 2027, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date 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.

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

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.”

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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## **INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Baybrook Municipal Utility District No. 1 (the "District") of its \$2,995,000 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 of the Texas Water Code, as amended, and various elections 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 \$2,927,262.02 (being the par amount of the Bonds, less a net original issue discount on the Bonds of \$39,472.85, and less an underwriter's discount of \$28,265.13), 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.

The following statement is provided by the Underwriter: In accordance with its responsibilities under federal securities laws, the Underwriter has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness.

### **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 frequently 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.

## BOND INSURANCE POLICY

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

#### *Miscellaneous Matters*

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

#### **RATINGS**

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 Bonds are expected to receive an insured rating of “AA” (stable outlook) from S&P solely in reliance upon the issuance of the Policy issued by AGM at the time of the delivery of the Bonds.

The Bonds are expected to receive an insured rating of “A2” (stable outlook) from Moody’s solely in reliance upon the issuance of the Policy issued by AGM at the time of delivery of the Bonds. Moody’s has assigned an underlying credit rating of “Baa1” 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 rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P or Moody’s, if in its judgement, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the ratings of S&P and 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 ..... Baybrook Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Issue ..... The District’s \$2,995,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”), are dated March 1, 2019. Interest accrues from March 1, 2019, at the rates set forth on the inside cover page hereof, and is payable November 1, 2019, and each May 1 and November 1 thereafter until the earlier of stated maturity or redemption. The Bonds maturing on or after May 1, 2028, are subject to redemption, in whole or from time to time in part, on May 1, 2027, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS.”

Source of Payment ..... Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas (the “City”); or any other political subdivision or entity other than the District. See “THE BONDS – Source of Payment.”

Strategic Partnership Agreement..... The District entered into a Strategic Partnership Agreement with the City as authorized by Texas Local Government Code Chapter 43 in 2001, which was amended and restated in December 2018 (the “SPA”). The SPA provides for a “limited-purpose annexation” of the District for purposes of applying certain City health, safety, planning, and zoning ordinances within the District. The amended and restated SPA adjusts the boundaries of the land subject to the agreement, specifies certain standard conditions of the City that apply to all development in and bond issues by the District, and provides for the limited-purpose annexation by the City of an additional tract of land in the District. As amended, the SPA terminates on December 12, 2029, but may be renewed.

As a result of the SPA, the City is authorized to impose its one percent (1%) retail sales tax (“City Sales Tax”) within the boundaries of the District. Pursuant to the SPA, the City has agreed to pay to the District an amount equal to one-half of all retail sales tax revenues generated within the boundaries of the District (the “Contract Sales Tax Revenue”) and received by the City from the Comptroller of the State of Texas. The City began assessing the City Sales Tax in the District in April, 2001. The District began receiving Contract Sales Tax Revenue from the City in August, 2001. The City Sales Tax is levied and collected against the receipts from the sale of taxable items within the District. The City Sales Tax is an excise

tax on the use, storage or other consumption of taxable tangible personal property purchased, leased, or rented from a retailer within the District. The imposition, computation, administration, governance, abolition, and use of the sales tax is governed by the Municipal Sales and Use Tax Act and is administered by the Comptroller of the State of Texas.

The District is authorized to use the Contract Sales Tax Revenue generated pursuant to the SPA for any lawfully authorized purpose. In accordance with such authorization, the District has pledged the first \$500,000 of Contract Sales Tax Revenue received each year during the term of the SPA to payment of debt service on certain of its outstanding bonds (the "Pledged Contract Revenue") as more fully described below. **The Pledged Contract Revenue is NOT pledged to the Bonds.**

During its fiscal year ended June 30, 2018, the District received \$1,859,303 of Contract Sales Tax Revenue. The Contract Sales Tax Revenue that is not pledged to payment of debt service on certain of the District's outstanding bonds is used by the District for operational purposes. See "CONTRACT SALES TAX REVENUE," "INVESTMENT CONSIDERATIONS - Dependence on Collection of Contract Sales Tax Revenue," and "THE DISTRICT - Strategic Partnership Agreement."

Metro Agreement ..... As a result of the SPA, the District is included within the boundaries of Metro (defined herein). As a result, Metro is authorized to impose its one percent (1%) sales tax ("Metro Sales Tax") within the boundaries of the District. The District has entered into an agreement with Metro (the "Metro Agreement"), pursuant to which Metro has agreed to pay to the District one-half of its sales tax revenue generated within the District ("Contract Metro Sales Tax Revenue"). The District is authorized to use the Contract Metro Sales Tax Revenue only for certain road and traffic projects inside or outside the boundaries of the District. Metro makes payments to the District under the Metro Agreement on a monthly basis, during the term of the Metro Agreement, which expires in January 8, 2031. See "THE DISTRICT - Metro Agreement."

Use of Proceeds ..... The proceeds of the Bonds will be used to pay issuance costs of the Bonds and to currently refund \$2,785,000 principal amount of the District's \$3,650,000 Unlimited Tax Bonds, Series 2011 (the "Refunded Bonds"). The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District's current annual debt service requirements. See "PLAN OF FINANCING."

Remaining Outstanding Bonds..... The District has previously issued the following seven series of unlimited tax bonds for the purpose of providing, operating, and maintaining water distribution, wastewater collection and storm drainage facilities serving the District (the "System"): \$2,800,000 Unlimited Tax Bonds, Series 1989 (the "Series 1989 Bonds"); \$2,300,000 Unlimited Tax Bonds, Series 1990 (the "Series 1990 Bonds"); \$3,415,000 Unlimited Tax Bonds, Series 1998 (the "Series 1998 Bonds"); \$9,975,000 Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"); \$8,830,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$3,650,000 Unlimited Tax Bonds,

Series 2011 (the "Series 2011 Bonds") and \$13,560,000 Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"). No bonds remain outstanding from issuance of the Series 1989 Bonds, the Series 1990 Bonds, the Series 1998 Bonds, and the Series 2002 Bonds. Of the District's previous series of unlimited tax bonds issued for the purpose of constructing the System, only bonds issued in connection with the Series 2008 Bonds, the Series 2011, and the Series 2015 Bonds remain outstanding as of the date of this Official Statement (collectively, the "Outstanding System Bonds").

In addition, the District has previously issued the following five series of unlimited tax refunding bonds: \$3,810,000 Unlimited Tax Refunding Bonds, Series 1996 (the "Series 1996 Refunding Bonds"); \$7,040,000 Unlimited Tax Refunding Bonds, Series 2006 (the "Series 2006 Refunding Bonds"); \$4,455,000 Unlimited Tax Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds"); \$5,225,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds"); and \$8,310,000 Unlimited Tax Refunding Bonds, Series 2016 (the "Series 2016 Refunding Bonds"). No bonds remain outstanding from issuance of the Series 1996 Refunding Bonds or the Series 2006 Refunding Bonds. Of the District's five series of bonds previously issued for refunding purposes, only bonds issued in connection with the Series 2011 Refunding Bonds, Series 2014 Refunding Bonds, and the Series 2016 Refunding Bonds remain outstanding as of the date of this Official Statement (collectively, the "Outstanding Refunding Bonds" and together with the Outstanding System Bonds, "the Outstanding Bonds").

Of the Outstanding Bonds, the Pledged Contract Revenue is **only** pledged to the Series 2008 Bonds, the Series 2011 Bonds, the Series 2014 Refunding Bonds, and the Series 2016 Refunding Bonds (the "Pledged Outstanding Bonds") and **is not pledged to any of the other Outstanding Bonds or to the Bonds**. After the issuance of the Bonds, \$12,305,000 principal amount of the Pledged Outstanding Bonds will remain outstanding (the "Remaining Pledged Outstanding Bonds"). The Pledged Contract Revenue is not pledged to the Series 2011 Refunding Bonds or the Series 2015 Bonds (the "Unpledged Outstanding Bonds"). After the issuance of the Bonds, \$14,155,000 principal amount of Unpledged Outstanding Bonds will remain outstanding (the "Remaining Unpledged Outstanding Bonds"). The Remaining Pledged Outstanding Bonds and the Remaining Unpledged Outstanding Bonds are collectively referred to herein as the "Remaining Outstanding Bonds." See "PLAN OF FINANCING - The Remaining Outstanding Bonds."

Authority for Issuance..... The Bonds are the thirteenth installment of bonds to be issued from an aggregate \$64,850,000 principal amount of bonds authorized at elections held within the District on May 7, 1988, and September 14, 2002, for the purposes of purchasing, constructing or otherwise acquiring the System and for refunding purposes. After the sale of the Bonds, \$18,065,000 in bonds for construction of the System and refunding purposes will remain authorized but unissued. See "THE BONDS - Authority for Issuance."

NO Pledged Contract Revenue.....	<b>The Pledged Contract Revenue is NOT pledged to the Bonds.</b> While any of the Remaining Pledged Outstanding Bonds are outstanding, the District has covenanted for a portion of its Outstanding Bonds to transfer from its General Operating Fund to its Debt Service Fund an amount of Pledged Contract Revenue that is the lesser of (a) the first \$500,000 of Contract Sales Tax Revenue received annually from the City pursuant to the SPA or (b) the debt service amount on the Remaining Pledged Outstanding Bonds during the term of the SPA, which expires on December 12, 2029, for the payment of principal and interest <b>on the Remaining Pledged Outstanding Bonds.</b> This transfer shall occur on or before September 1 of each year. See “CONTRACT SALES TAX REVENUE,” “INVESTMENT CONSIDERATIONS – Dependence on Collection of Contract Sales Tax Revenue,” and “THE DISTRICT – Strategic Partnership Agreement.”
Payment Record.....	The Bonds represent the sixth series of unlimited tax refunding bonds issued by the District. The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness. See “THE BONDS – Source of Payment.”
Authorized but Unissued Bonds .....	The District’s voters have authorized the issuance of \$64,850,000 of bonds for construction of the System and refunding purposes and could authorize additional amounts. Such remaining authorized but unissued bonds could be issued with or without the additional pledge of Contract Sales Tax Revenue. Any additional bonds sold would be on a parity with, or subordinate to, the Bonds. Following the issuance of the Bonds, the District will have \$18,065,000 of bonds for construction of the System and refunding purposes authorized but unissued. See “THE BONDS – Authority for Issuance.”
Bond Insurance Policy .....	Assured Guaranty Municipal Corp (“AGM”). See “BOND INSURANCE POLICY.”
Ratings .....	S&P (AGM insured) – “AA” (stable outlook). Moody’s (AGM insured) – “A2” (stable outlook). Moody’s (Underlying) – “Baa1.” See “RATINGS” and “BOND INSURANCE POLICY.”
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 .....	The Arbitrage Group, Inc., Buhl, Alabama.
Paying Agent and Escrow Agent.....	Zions Bancorporation, National Association, Houston, Texas.

**THE DISTRICT**

Description.....	The District was created by the Texas Water Rights Commission (the predecessor of the Texas Commission on Environmental Quality, the “TCEQ”) on July 9, 1984, for the purpose of providing, operating, and maintaining water distribution, wastewater collection and storm drainage facilities serving land within the District. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code pursuant to Article XVI, Section 59 of the Texas Constitution. The District contains approximately 884.33
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acres, is located entirely within Harris County and entirely within the extraterritorial jurisdiction of the City. See "THE DISTRICT - General."

Location.....The District is located approximately 21 miles southeast of the central business district of the City and is located entirely within the extraterritorial jurisdiction of the City. The District lies at the intersection of Interstate Highway 45 and Bay Area Boulevard. The District can be accessed by Interstate Highway 45, Bay Area Boulevard and El Dorado Boulevard.

Principal Landowners.....The owners of the majority of the undeveloped property in the District (collectively, the "Principal Landowners") include: Northfield Realty, Inc. ("Northfield"); Southbrook Corporation ("Southbrook"); and Eastfield Realty Inc. ("Eastfield").

The Principal Landowners each have entered into a management agreement with CDC-Houston Inc. (the "Developer" or "CDC") for management of all their real estate holdings, development and leasing activities. CDC is a subsidiary of Coventry Development Corp. ("Coventry"), a New York corporation. Coventry is a national developer of master-planned communities in Colorado, Florida and Texas. See "PRINCIPAL LANDOWNERS AND DEVELOPERS."

Status of Development.....Development within the District includes all or a portion of the following five shopping centers:

Baybrook Square, a shopping center that includes approximately 301,565 total square feet of leasable area available to commercial tenants, is situated partially within the District and partially outside of the District, in the City of Webster. Establishments located in Baybrook Square and within the District include: Sun & Ski Sports, Bath Junkie, Massage Heights, Kirkland's, Marshalls Home Goods, DSW, Old Navy, La-Z-Boy Furniture, BB&T Bank, Five Guys, and AT&T Mobility. Such establishments occupy approximately 162,626 square feet of leasable area of the total 165,126 square feet of leasable area within the District in Baybrook Square.

Baybrook Village, a shopping center that includes approximately 227,973 total square feet of leasable area, is located wholly within the District and currently includes the following retail, bank and restaurant tenants: LifeWay Christian Stores, Nails of America, Amazing Lash Studio, Hand & Stone Massage and Facial Spa, Trudy's Hallmark Shop, Jo-Ann's Fabrics, Torrid, Mann Eye Center, Ross Dress for Less, Chuck E. Cheese's, PetsMart, Ulta Salon, Blaze Pizza, Panda Express, Outback Steakhouse, Zoe's Kitchen, Red Mango, Sprint, Blast Fitness, and Jos. A. Bank Clothiers.

A portion of the Baybrook Passage Shopping Center (approximately 48,830 square feet) is located in the City of Webster, and a portion (approximately 150,131 square feet) is located within the District. Commercial establishments located in Baybrook Passage Shopping Center and within the District include: Best Buy, Staples, Music & Arts, Ideal Image, Lewis Jewelers, Nightlight Pediatrics, Good Feet, Snap Kitchen, TGI Fridays, Vitamin Shoppe, Potbelly Sandwiches, Today's Vision, Lacquered Lounge, 18|8 Shear & Refined, and Pei Wei Asian Diner.

Baybrook Marketplace Shopping Center, all of which is located in the District, includes approximately 196,620 square feet and the following retail/commercial establishments: Super Target, Subway, Pay Less Shoes, Sally's Beauty Supply, Great Clips, Nail Salon, Capital One Bank, Mattress One, and Starbucks.

Baybrook Landing Shopping Center (approximately 170,300 square feet), all of which is located within the District, includes the following retail/commercial establishments: Lowe's Home Improvement on a 15-acre ground lease, LongHorn Steakhouse on a one-acre ground lease, and Charles Schwab.

Situated within the District, an extension of Baybrook Mall has recently been completed and is occupied by the following retail tenants: The Container Store, REI, Total Wine, Red Robin, The Whiskey Cake, Basset Furniture and Dick's Sporting Goods.

In addition, Panera Bread, Firestone Tire, Chick fil A, Carl's Jr, Home Depot, Timewise Service Station, and Taco Bell, McDonald's are located within the District but not within one of the shopping centers described above.

In addition to the commercial and retail development within the District, The Grayson at Baybrook (which as originally named Lodge at Baybrook), a 322-unit apartment community has been constructed on approximately 13 acres within the District. Eastfield Realty sold land to Sueba Development 142 LP which has constructed a multi-family community called San Palmilla consisting of 347 rental units on approximately 11.7 acres. Eastfield Realty sold approximately 4.8 acres to Healthcare REIT, Inc. Kelsey Seybold (approximately 55,000 square feet) has been constructed and occupied.

The commercial and multi-family improvements referenced above lie on approximately 237 acres and the balance of the District is composed of approximately 547 acres that have not been provided with water supply and distribution, wastewater collection and treatment or storm drainage facilities and approximately 100 acres (pipeline and drainage easements) that are not developable. The District encompasses approximately 884 total acres. See "DEVELOPMENT WITHIN THE DISTRICT."

### **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.....	\$ 359,744,368	(a)
Direct Debt		
The Remaining Outstanding Bonds (Excludes the Refunded Bonds) .....	\$ 26,460,000	
The Bonds .....	<u>\$ 2,995,000</u>	
Total Direct Debt.....	\$ 29,455,000	
Net Direct Debt		
Total Direct Debt.....	\$ 29,455,000	
Less Portion of Remaining Outstanding Bonds Supported by Pledged Contract Revenue ...	<u>\$ 4,000,000</u>	(b)
Net Direct Debt .....	\$ 25,455,000	
Total Net Direct Debt and Estimated Overlapping Debt		
Net Direct Debt .....	\$ 25,455,000	
Estimated Overlapping Debt .....	<u>\$ 17,550,690</u>	(c)
Total Net Direct Debt and Estimated Overlapping Debt.....	\$ 43,005,690	
Net Direct Debt Ratios:		
As a percentage of 2018 Taxable Assessed Valuation .....	7.08	%
Total Net Direct Debt and Estimated Overlapping Debt Ratios:		
As a percentage of 2018 Taxable Assessed Valuation .....	11.95	%
Debt Service Fund Balance (as of January 22, 2019) .....	\$ 1,696,513	(d)
Capital Projects Fund Balance (as of January 22, 2019).....	\$ 46,770	
General Fund Balance (as of January 22, 2019) .....	\$ 14,495,910	
Metro Road Powers Fund Balance (as of January 22, 2019).....	\$ 5,339,599	
2018 Tax Rate per \$100 of Taxable Assessed Valuation		
Debt Service .....	\$0.54	
Maintenance .....	<u>\$0.57</u>	
Total.....	\$1.11	
Average Annual Debt Service Requirement (2019–2040) .....	\$ 1,757,131	(e)
Less: Pledged Contract Revenue on Remaining Pledged Outstanding Bonds.....	\$ 272,727	
Net Average Annual Debt Service Requirement.....	\$ 1,484,404	(f)
Maximum Annual Debt Service Requirement (2021).....	\$ 2,740,343	(e)
Less: Pledged Contract Revenue on Remaining Pledged Outstanding Bonds.....	\$ 500,000	
Net Maximum Annual Debt Service Requirement.....	\$ 2,240,343	(f)
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Net Average Annual Debt Service Requirement (2019–2040) at 95% Tax Collections		
Based on 2018 Taxable Assessed Valuation.....	\$0.44	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Net Maximum Annual Debt Service Requirement (2021) at 95% Tax Collections		
Based on 2018 Taxable Assessed Valuation.....	\$0.66	

- (a) Represents the taxable assessed value of the District as of January 1, 2018, as provided by the Harris County Appraisal District. See "TAXING PROCEDURES" and "TAX DATA."
- (b) For illustrative purposes only. This amount reflects the approximate amount of bonds supported by Pledged Contract Revenue. See "INVESTMENT CONSIDERATIONS – Dependence on Collection of Contract Sales Tax Revenue" and "CONTRACT SALES TAX REVENUE."
- (c) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."
- (d) Neither Texas Law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
- (e) Requirement of debt service on the Remaining Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."
- (f) Requirement of debt service on the Remaining Outstanding Bonds and the Bonds after deductions for Pledged Contract Revenue to be transferred to the Debt Service Fund for payment of debt service on the Remaining Pledged Outstanding Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule," "CONTRACT SALES TAX REVENUE," "INVESTMENT CONSIDERATIONS – Dependence on Collection of Contract Sales Tax Revenue," and "THE DISTRICT – Strategic Partnership Agreement."

## INTRODUCTION

This Official Statement of Baybrook Municipal Utility District No. 1 (the "District") is provided to furnish information with respect to the issuance by the District of its \$2,995,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds"). The Bonds are issued pursuant to: Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, a resolution (the "Bond Resolution") adopted by the Board of Directors of the District on the date of the sale of the Bonds, and certain elections held in the District.

There follows in this Official Statement descriptions of the Bonds, development within the District, 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, Phoenix Tower, 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 following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. A copy of the Bond Resolution may be obtained from the District upon written request made to the District's Bond Counsel, Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

The Bonds are dated March 1, 2019, with interest payable November 1, 2019, and each May 1 and November 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds mature on May 1 in each 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 at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/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 Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

### Book-Entry-Only System

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC 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.



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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual 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. 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, principal, and interest 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 District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and

customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

#### **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 Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/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 Paying Agent/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 Paying Agent/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 Paying Agent/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 Paying Agent/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 Paying Agent/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 Paying Agent/Registrar may require the Bondholder to pay a sum sufficient to cover any tax or governmental charge payable in connection therewith.

### **Redemption of the Bonds**

The Bonds maturing on or after May 1, 2028, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on May 1, 2027, 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 Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/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 Paying Agent/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 Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require the Registered Owner to pay taxes, governmental charges and other expenses in connection with any such replacement.

### **Authority for Issuance**

At a bond elections held within the District on May 7, 1988, and September 14, 2002, the voters of the District authorized the District's issuance of a total of \$64,850,000 principal amount of unlimited tax bonds for the purpose of providing, operating, and maintaining water distribution, wastewater collection and storm drainage facilities serving the District (the "System") and for refunding purposes. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Constitution of the State of Texas, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207, Texas Government Code, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, and City of Houston Ordinance No. 97-416.

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

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and cost of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest and principal of the Bonds. The Bonds are obligations of the District and are not the obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or any entity other than the District.

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality ("TCEQ") necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT." The District's voters have authorized the issuance of \$64,850,000 of bonds for construction of the System and refunding purposes and could authorize additional amounts. Such remaining authorized but unissued bonds could be issued with or without the additional pledge of Contract Sales Tax Revenue (herein defined). Any additional bonds sold would be on a parity with or subordinate to the Bonds. Following the issuance of the Bonds, the District will have \$18,065,000 of bonds for construction of the System and refunding purposes authorized but unissued.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District See "INVESTMENT CONSIDERATIONS – Future Debt."

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

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes. Further, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District. In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the Bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The District has not considered calling an election for such purposes but could consider doing so in the future.

## **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 or other qualified commercial banker or trust company, 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/or 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 or 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.

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**PLAN OF FINANCING**

**Use and Distribution of Bond Proceeds**

Proceeds from sale of the Bonds will be used to pay issuance costs of the Bonds and to currently refund \$2,785,000 principal amount of the District's \$3,650,000 Unlimited Tax Bonds, Series 2011 (the "Refunded Bonds"). The refunding of the Refunded Bonds is expected to 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:

Maturity Date	Principal Amount	Redemption Date
5/1/2022	130,000	5/1/2019
5/1/2023	135,000	5/1/2019
5/1/2024	145,000	5/1/2019
5/1/2030 (a)	1,095,000	5/1/2019
5/1/2035 (b)	<u>1,280,000</u>	5/1/2019
	<b>\$2,785,000</b>	

(a) Term Bond with mandatory redemption amounts as follows:

Amount	Mandatory Redemption Date
\$155,000	5/1/2025
165,000	5/1/2026
175,000	5/1/2027
190,000	5/1/2028
200,000	5/1/2029
<u>210,000</u>	5/1/2030
<b>\$1,095,000</b>	

(b) Term Bond with mandatory redemption amounts as follows:

Amount	Mandatory Redemption Date
\$225,000	5/1/2031
240,000	5/1/2032
255,000	5/1/2033
270,000	5/1/2034
<u>290,000</u>	5/1/2035
<b>\$1,280,000</b>	

Aggregate Amount of Bonds Being Refunded

**\$2,785,000**

## The Remaining Outstanding Bonds

The District previously issued seven series of unlimited tax bonds comprised of \$2,800,000 Unlimited Tax Bonds, Series 1989 (the "Series 1989 Bonds"); \$2,300,000 Unlimited Tax Bonds, Series 1990 (the "Series 1990 Bonds"); \$3,415,000 Unlimited Tax Bonds, Series 1998 (the "Series 1998 Bonds"); \$9,975,000 Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"); \$8,830,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$3,650,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds") and \$13,560,000 Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds") for the purpose of providing, operating, and maintaining the System. In addition, the District has previously issued five series of unlimited tax refunding bonds, comprised of the \$3,810,000 Unlimited Tax Refunding Bonds, Series 1996 (the "Series 1996 Refunding Bonds"); the \$7,040,000 Unlimited Tax Refunding Bonds, Series 2006 (the "Series 2006 Refunding Bonds"); the \$4,455,000 Unlimited Tax Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds"); the \$5,225,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds"); and \$8,310,000 Unlimited Tax Refunding Bonds, Series 2016 (the "Series 2016 Refunding Bonds").

The Pledged Contract Revenue is only pledged to the Series 2008 Bonds, the Series 2011 Bonds, the Series 2014 Refunding Bonds, and the Series 2016 Refunding Bonds (the "Pledged Outstanding Bonds"). After the issuance of the Bonds, \$12,305,000 principal amount of the Pledged Outstanding Bonds will remain outstanding (the "Remaining Pledged Outstanding Bonds"). The Pledged Contract Revenue is not pledged to the Series 2011 Refunding Bonds or the Series 2015 Bonds (the "Unpledged Outstanding Bonds") or the Bonds. After the issuance of the Bonds, \$14,155,000 principal amount of Unpledged Outstanding Bonds will remain outstanding (the "Remaining Unpledged Outstanding Bonds"). The Remaining Pledged Outstanding Bonds and the Remaining Unpledged Outstanding Bonds are collectively referred to herein as the "Remaining Outstanding Bonds." After the issuance of the Bonds and the redemption of the Refunded Bonds, the following bonds will remain outstanding:

	Original Principal Amount	Principal Currently Outstanding	Less: Refunded Bonds	Remaining Outstanding Bonds
Series 1989 Bonds	2,800,000	-0-	-0-	-0-
Series 1990 Bonds	2,300,000	-0-	-0-	-0-
Series 1996 Refunding Bonds	3,810,000	-0-	-0-	-0-
Series 1998 Bonds	3,415,000	-0-	-0-	-0-
Series 2002 Bonds	9,975,000	-0-	-0-	-0-
Series 2006 Refunding Bonds	7,040,000	-0-	-0-	-0-
Series 2008 Bonds	8,830,000	200,000	-0-	200,000
Series 2011 Refunding Bonds	4,455,000	1,275,000	-0-	1,275,000
Series 2011 Bonds	3,650,000	3,125,000	2,785,000	340,000
Series 2014 Refunding Bonds	5,225,000	3,750,000	-0-	3,750,000
Series 2015 Bonds	13,560,000	12,880,000	-0-	12,880,000
Series 2016 Refunding Bonds	<u>8,310,000</u>	<u>8,015,000</u>	<u>-0-</u>	<u>8,015,000</u>
	73,370,000	29,245,000	2,785,000	26,460,000



**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.....	\$ 2,995,000.00
Net Original Issue Discount.....	(39,472.85)
Accrued Interest on the Bonds .....	4,291.88
Debt Service Fund Transfer .....	<u>68,000.00</u>
Total Sources of Funds .....	\$ 3,027,819.03

**USES OF FUNDS:**

Deposit for Payment of Refunded Bonds .....	\$ 2,847,105.20
Deposit of Accrued Interest to Debt Service Fund .....	4,291.88
Issuance Expenses and Underwriter’s Discount.....	<u>176,421.95</u>
Total Uses of Funds.....	\$ 3,027,819.03

**Escrow Agreement**

The District will enter into an escrow agreement (the “Escrow Agreement”) with Zions Bancorporation, National Association (the “Escrow Agent”), pursuant to which a portion of the proceeds of the Bonds will be invested in certain securities of the United States of America, or agencies of the United States of America or other investments authorized by Chapter 1207, Texas Government Code (the “Escrowed Obligations”), deposited, along with cash, in an escrow fund (the “Escrow Fund”), and applied to provide for scheduled payment of principal of and interest on the Refunded Bonds until their maturity or prior redemption and to provide for payment of the redemption price of the Refunded Bonds on the redemption date. At the time of delivery of the Bonds, The Arbitrage Group, Inc., will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Obligations will mature at such times and yield interest in amounts that, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Pursuant to the Escrow Agreement, the Escrow Fund is irrevocably pledged for the payment of principal of and interest on the Refunded Bonds.

By the deposit of the Escrowed Obligations and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have affected the defeasance of the Refunded Bonds pursuant to the terms of the resolution authorizing the issuance of the Refunded Bonds. In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefore in such Escrow Agreement.

**THE DISTRICT**

**Authority**

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The District may also provide solid waste collection and disposal service, provide security services, and operate, construct and maintain recreational facilities. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is also empowered to finance certain road improvements. In 2001 the Texas Legislature granted the District “road utility district authority” under Texas law. This authority allows the District to construct or acquire certain road and traffic facilities inside and outside its boundaries and to maintain such facilities. The legislation authorizes the District to impose an ad valorem tax and issue

bonds to finance the construction or acquisition of road facilities. However, such authorization must be submitted to the qualified voters of the District for approval. At this time, the District has no plans to issue road bonds supported by ad valorem taxes or to submit a proposal to the District’s qualified voters for such authorization. The District is subject to the continuing supervision of the TCEQ. See “THE BONDS – Issuance of Additional Debt” and “THE DISTRICT – Strategic Partnership Agreement.”

**Description**

The District encompasses approximately 884.33 acres and is located approximately 21 miles southeast of the central business district of the City of Houston, Texas (the “City”), and is situated entirely within the extraterritorial jurisdiction of the City. The District lies at the intersection of Interstate Highway 45 and Bay Area Boulevard. The District can be accessed by Interstate Highway 45, Bay Area Boulevard and El Dorado Boulevard.

**Management of the District**

The District is governed by a board of five (5) directors who have control over and management supervision of all affairs of the District. All of the directors own land within the District. All directors serve four-year staggered terms. Elections are held in even-numbered years in May. The present members and officers of the Board are listed below:

Name	Title	Term Expires May
Mark Hardy	President	2020
Corey L. Kelly	Vice President	2020
David Martin	Secretary	2022
Chris Clark	Assistant Vice President	2022
Burdette Keeland III	Assistant Secretary	2020

**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’s bookkeeper is Municipal Accounts & Consulting, L.P.

**Tax Assessor/Collector:** The District’s Tax Assessor/Collector is Assessments of the Southwest, Inc. (the “Tax Assessor/Collector”). The Tax Assessor/Collector applies the District’s tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

**Engineer:** The District’s consulting engineer is LJA Engineering, Inc. (the “Engineer”).

**Auditing:** The firm of McGrath & Co., PLLC, Certified Public Accountants, prepared the annual audit for the District’s fiscal year ended June 30, 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.

## **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.

## **Strategic Partnership Agreement**

The District entered into a Strategic Partnership Agreement with the City as authorized by Texas Local Government Code, Chapter 43 in 2001, which was amended and restated in December 2018 (the “SPA”). The SPA provides for a “limited purpose annexation” of the District for purposes of applying certain City health, safety, planning and zoning ordinances within the District. The SPA also provides that the City will not annex the District for “full purposes” (a traditional municipal annexation) until the earlier of: (1) at least ninety percent (90%) of the District’s water, wastewater, storage drainage facilities and road facilities are constructed or (2) thirty (30) years from the date of the SPA. As a condition of full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and storm drainage facilities must be assumed by the City to the maximum extent permitted by the TCEQ rules.

As a result of the SPA, the City is authorized to impose the one percent (1%) City Sales Tax within the boundaries of the District. Pursuant to the SPA, the City agreed to pay to the District an amount equal to one-half of all retail sales tax revenues generated within the boundaries of the District and received by the City from the Comptroller (herein defined as the Contract Sales Tax Revenue). Pursuant to state law, the District is authorized to use the Contract Sales Tax Revenue generated pursuant to the SPA for any lawfully authorized purpose. In accordance with such authorization, the District has pledged the first \$500,000 of City Sales Tax received by the District during the term of the SPA each year to payment of the Remaining Pledged Outstanding Bonds. See “THE BONDS – Sources of Payment.”

While the SPA is in existence, the City receives sales tax funds from the Comptroller and remits the Contract Sales Tax Revenue to the District on a monthly basis. The City began assessing the City Sales Tax in the District in April of 2001, and the District began receiving Contract Sales Tax Revenue from the City in August of 2001. In December of 2018, the SPA was amended and restated (i) to adjust the boundaries of the land subject to the agreement, (ii) to specify certain standard conditions of the City that apply to all development in and bond issues by the District, and (iii) to provide for the limited-purpose annexation by the City of a 22.828-tract that was annexed into the District effective June 26, 2018. The original SPA with the City expired January 10, 2031; the First Amended and Restated SPA will expire on December 12, 2029. The District is working with the City to correct the expiration date to January 10, 2031. See “CONTRACT SALES TAX REVENUE.”

## **Metro Agreement**

As a result of the SPA, the District is included within the boundaries of the Metropolitan Transit Authority of Harris County, Texas (“Metro”). As a result, Metro is authorized to impose its one percent (1%) sales tax (“Metro Sales Tax”) within the boundaries of the District. The District has entered into an agreement with Metro (the “Metro Agreement”), pursuant to which Metro has agreed to pay to the District one-half of its sales tax revenue generated within the District (“Contract Metro Sales Tax Revenue”). The District is authorized to use the Contract Metro Sales Tax Revenue only for certain road and traffic projects inside or outside the boundaries of the District. Metro makes payments to the District under the Metro Agreement on a monthly basis.

In order to implement the Metro Agreement, in 2001 the Texas Legislature granted the District “road utility district authority” under Texas law. This authority allows the District to construct or acquire certain road and traffic facilities inside and outside its boundaries and to maintain such facilities. The legislation authorizes the District to impose an ad valorem tax and issue bonds to finance the construction or acquisition of road

facilities. However, such authorization must be submitted to the qualified voters of the District for approval. At this time, the District has no plans to issue road bonds supported by ad valorem taxes or to submit a proposal to the District's qualified voters for such authorization, but may do so in the future. At this time, the District is constructing road and traffic facilities as Contract Metro Sales Tax Revenue is available pursuant to the Metro Agreement. The Metro Agreement expires January 8, 2031, or when the City annexes the District for full purposes, whichever comes first.

## **PRINCIPAL LANDOWNERS AND DEVELOPERS**

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

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In certain instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a municipal utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

### **Principal Landowners**

The owners of the majority of the undeveloped property in the District (collectively, the "Principal Landowners") include: Northfield Realty, Inc. ("Northfield"); Southbrook Corporation ("Southbrook"); and Eastfield Realty Inc. ("Eastfield"). See "TAX DATA – Principal Taxpayers."

### **The Developer**

Southbrook, Northfield and Eastfield each have entered into a management agreement with CDC-Houston Inc. ("CDC") for the management of all their real estate holdings, development and leasing activities. CDC is a subsidiary of Coventry Development Corp. ("Coventry"), a New York corporation. Coventry is a national developer of master-planned communities in Colorado, Florida and Texas.

### **Other Principal Owners of Property**

Baybrook Passage and Baybrook Landing are owned by CDC-managed entities and managed by Madison Marquette.

In September of 2011, OWRF Baybrook LLC ("OWRF") purchased the Baybrook Village Shopping Center and 7.225 acres of land in the District. OWRF is a partnership formed by O'Connor Capital Partners. Such shopping center is managed by Wulfe Management Services, Inc. See "TAX DATA –Principal Taxpayers."

Baybrook Square Shopping Center is owned and managed by Fidelis Realty Partners. Baybrook Passage Shopping Center and Baybrook Landing Shopping Center are managed by Madison Marquette. Baybrook Marketplace is owned and managed by PC Shopping Center 2002, Ltd. The Grayson at Baybrook, a 322-unit apartment community in the District, is owned by Grayson at Baybrook LLC. San Palmilla, a second multi-family community in the District consisting of 347 rental units, is owned by Sueba Development 142 LP.

Prospective Bond purchasers should note that the prior real estate experience of the Principal Landowners or the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments."

## DEVELOPMENT WITHIN THE DISTRICT

### Status of Development

Development within the District includes all or a portion of the following five shopping centers:

Baybrook Square, a shopping center that includes approximately 301,565 total square feet of leasable area available to commercial tenants, is situated partially within the District and partially outside of the District, in the City of Webster. Establishments located in Baybrook Square and within the District include: Sun & Ski Sports, Bath Junkie, Massage Heights, Kirkland's, Marshalls Home Goods, DSW, Old Navy, La-Z-Boy Furniture, BB&T Bank, Five Guys, and AT&T Mobility. Such establishments occupy approximately 162,626 square feet of leasable area of the total 165,126 square feet of leasable area within the District in Baybrook Square.

Baybrook Village, a shopping center that includes approximately 227,973 total square feet of leasable area, is located wholly within the District and currently includes the following retail, bank and restaurant tenants: LifeWay Christian Stores, Nails of America, Amazing Lash Studio, Hand & Stone Massage and Facial Spa, Trudy's Hallmark Shop, Jo-Ann's Fabrics, Torrid, Mann Eye Center, Ross Dress for Less, Chuck E. Cheese's, PetsMart, Ulta Salon, Blaze Pizza, Panda Express, Outback Steakhouse, Zoes Kitchen, Red Mango, Sprint, Blast Fitness, and Jos. A. Bank Clothiers.

A portion of the Baybrook Passage Shopping Center (approximately 48,830 square feet) is located in the City of Webster, and a portion (approximately 150,131 square feet) is located within the District. Commercial establishments located in Baybrook Passage Shopping Center and within the District include: Best Buy, Staples, Music & Arts, Ideal Image, Lewis Jewelers, Nightlight Pediatrics, Good Feet, Snap Kitchen, TGI Fridays, Vitamin Shoppe, Potbelly Sandwiches, Today's Vision, Lacquered Lounge, 18|8 Shear & Refined, and Pei Wei Asian Diner.

Baybrook Marketplace Shopping Center, all of which is located in the District, includes approximately 196,620 square feet and the following retail/commercial establishments: Super Target, Pay Less Shoes, Sally's Beauty Supply, Great Clips, Nail Salon, Capital One Bank, Mattress One, Subway, and Starbucks.

Baybrook Landing Shopping Center (approximately 170,300 square feet), all of which is located within the District, includes the following retail/commercial establishments: Lowe's Home Improvement on a 15-acre ground lease, LongHorn Steakhouse on a one-acre ground lease, and Charles Schwab.

Situated within the District, an extension of Baybrook Mall has recently been completed and is occupied by the following retail tenants: The Container Store, REI, Total Wine, Red Robin, The Whiskey Cake, Basset Furniture, and Dick's Sporting Goods.

In addition, Panera Bread, Firestone Tire, Chick fil A, Carl's Jr, Home Depot, Timewise Service Station, Taco Bell, and McDonald's are located within the District but not within one of the shopping centers described above.

In addition to the commercial and retail development within the District, the Lodge at Baybrook, a 322-unit apartment community has been constructed on approximately 13 acres within the District. Eastfield Realty sold land to Sueba Development 142 LP which has constructed a multi-family community called San Palmilla consisting of 347 rental units on approximately 11.7 acres. Eastfield Realty sold approximately 4.8 acres to Healthcare REIT, Inc. Kelsey Seybold (approximately 55,000 square feet) has been constructed and occupied.

The commercial and multi-family improvements referenced above lie on approximately 237 acres and the balance of the District is composed of approximately 547 acres that have not been provided with water supply and distribution, wastewater collection and treatment or storm drainage facilities and approximately 100 acres (pipeline and drainage easements) that are not developable. The District encompasses approximately 884 total acres.

The District is located within the boundaries of the Baybrook Management District (the "Management District"). The Management District was created by special act of the Texas legislature on June 20, 2003, to promote, develop, encourage, and maintain employment, commerce, transportation, housing, tourism, recreation, the arts, entertainment, economic development, safety, and public welfare. The Management District has the authority to impose and collect an assessment against property located within its boundaries, although no such assessment has been imposed to date. As of this date, the Management District is inactive.

**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	\$2,698,630	\$140,400	-	\$57,225	\$2,615,455
2020	2,714,284	140,400	\$35,000	85,488	2,694,372
2021	2,760,955	140,400	35,000	84,788	2,740,343
2022	2,417,244	267,215	165,000	82,788	2,397,817
2023	2,424,925	265,655	165,000	79,488	2,403,757
2024	2,354,154	268,655	170,000	75,925	2,331,424
2025	2,316,469	271,155	180,000	71,988	2,297,301
2026	2,274,886	273,155	185,000	67,650	2,254,381
2027	2,238,409	274,655	190,000	62,488	2,216,241
2028	2,200,464	280,530	205,000	56,563	2,181,496
2029	2,156,074	280,780	210,000	50,338	2,135,631
2030	2,110,311	280,530	215,000	43,963	2,088,744
2031	1,168,343	284,543	225,000	37,363	1,146,163
2032	1,179,173	287,685	235,000	30,169	1,156,656
2033	1,181,638	290,063	250,000	22,288	1,163,863
2034	1,186,450	291,675	260,000	13,838	1,168,613
2035	1,194,170	297,395	270,000	4,725	1,171,500
2036	897,109	-	-	-	897,109
2037	895,759	-	-	-	895,759
2038	898,069	-	-	-	898,069
2039	898,934	-	-	-	898,934
2040	<u>903,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,253</u>
Totals	\$39,069,702	\$4,334,890	\$2,995,000	\$927,069	\$38,656,881

Average Annual Debt Service Requirement (2019–2040) .....\$1,757,131  
 Maximum Annual Debt Service Requirement (2021).....\$2,740,343

Net Average Annual Debt Service Requirement (2019–2040).....\$1,484,404 (a)  
 Net Maximum Annual Debt Service Requirement (2021).....\$2,240,343 (a)

(a) This amount reflects the application of the Pledged Contract Revenue to the debt service requirement.

**Bonded Indebtedness**

2018 Taxable Assessed Valuation.....	\$ 359,744,368	(a)
Direct Debt		
The Remaining Outstanding Bonds (Excludes the Refunded Bonds) .....	\$ 26,460,000	
The Bonds .....	\$ <u>2,995,000</u>	
Total Direct Debt.....	\$ 29,455,000	
Net Direct Debt		
Total Direct Debt.....	\$ 29,455,000	
Less Portion of Remaining Outstanding Bonds Supported by Pledged Contract Revenue ...	\$ <u>4,000,000</u>	(b)
Net Direct Debt .....	\$ 25,455,000	
Total Net Direct Debt and Estimated Overlapping Debt		
Net Direct Debt.....	\$ 25,455,000	
Estimated Overlapping Debt .....	\$ <u>17,550,690</u>	(c)
Total Net Direct Debt and Estimated Overlapping Debt.....	\$ 43,005,690	
Net Direct Debt Ratios:		
As a percentage of 2018 Taxable Assessed Valuation .....	7.08	%
Total Net Direct Debt and Estimated Overlapping Debt Ratios:		
As a percentage of 2018 Taxable Assessed Valuation .....	11.95	%
Debt Service Fund Balance (as of January 22, 2019) .....	\$ 1,696,513	(d)
Capital Projects Fund Balance (as of January 22, 2019).....	\$ 46,770	
General Fund Balance (as of January 22, 2019) .....	\$ 14,495,910	
Metro Road Powers Fund Balance (as of January 22, 2019).....	\$ 5,339,599	
2018 Tax Rate per \$100 of Taxable Assessed Valuation		
Debt Service .....	\$0.54	
Maintenance .....	<u>\$0.57</u>	
Total.....	\$1.11	
Average Annual Debt Service Requirement (2019–2040) .....	\$ 1,757,131	(e)
Less: Pledged Contract Revenue on Remaining Pledged Outstanding Bonds.....	\$ 272,727	
Net Average Annual Debt Service Requirement.....	\$ 1,484,404	(f)
Maximum Annual Debt Service Requirement (2021).....	\$ 2,740,343	(e)
Less: Pledged Contract Revenue on Remaining Pledged Outstanding Bonds.....	\$ 500,000	
Net Maximum Annual Debt Service Requirement.....	\$ 2,240,343	(f)
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Net Average Annual Debt Service Requirement (2019–2040) at 95% Tax Collections		
Based on 2018 Taxable Assessed Valuation.....	\$0.44	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Net Maximum Annual Debt Service Requirement (2021) at 95% Tax Collections		
Based on 2018 Taxable Assessed Valuation.....	\$0.66	

- (a) Represent the District’s taxable assessed value as of January 1, 2018, as provided by the Harris County Appraisal District. See “TAXING PROCEDURES.”
- (b) For illustrative purposes only. This amount reflects the approximate amount of bonds supported by Pledged Contract Revenue. See “INVESTMENT CONSIDERATIONS – Dependence on Collection of Contract Sales Tax Revenue” and “CONTRACT SALES TAX REVENUE.”
- (c) See “DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement.”
- (d) Neither Texas Law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
- (e) See “DISTRICT DEBT – Debt Service Requirement Schedule.”

**Bonds Authorized but Unissued**

The following sets out the unlimited tax bonds authorized and remaining unissued.

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Authorization Used</u>	<u>Remaining Unissued</u>
05/07/88	Water, Wastewater, Drainage & Refunding	\$28,850,000	\$28,850,000	-0-
09/14/02	Water, Wastewater, Drainage & Refunding	\$36,000,000	\$17,935,000 (a)	\$18,065,000

(a) Includes 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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt January 31, 2019</u>	<u>Overlapping</u>	
		<u>Percent</u>	<u>Amount</u>
Clear Creek ISD	\$942,950,000	1.62%	\$15,292,802
Harris County	2,050,758,022	0.08%	1,648,099
Harris County Department of Education	6,555,000	0.08%	5,267
Harris County Flood Control District	83,075,000	0.08%	68,200
Harris County Hospital District	59,490,000	0.08%	48,831
Port of Houston Authority	593,754,397	0.08%	<u>487,491</u>
Total Estimated Overlapping Debt .....			\$17,550,690
The District (a).....			<u>\$25,455,000</u>
Total Direct & Estimated Overlapping Debt (a).....			\$43,005,690

(a) Excludes the Refunded Bonds and includes the Bonds. Excludes amount of bonds that can be amortized with proceeds of Pledged Contract Revenue.

**Debt Ratios**

Net Direct Debt Ratio:	
As a percentage of 2018 Taxable Assessed Valuation .....	7.08 %
Net Direct and Estimated Overlapping Debt Ratio:	
As a percentage of 2018 Taxable Assessed Valuation .....	11.85 %



## CONTRACT SALES TAX REVENUE

*Source and Authorization:* The City began assessing the City Sales Tax in the District on April 1, 2001. The City Sales Tax is levied and collected against the receipts from the sale of taxable items within the District. The City Sales Tax is also an excise tax on the use, storage or other consumption of taxable tangible personal property purchased, leased or rented from a retailer within the District. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by the Municipal Sales and Use Tax Act.

In general, as applied to the sales tax, a taxable item includes any tangible personal property and certain taxable services. "Taxable services" include certain amusement services, cable television services, personal services, motor vehicle parking and storage services, the repair, remodeling, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling, security services, telephone answering services, and Internet access service. Certain items are exempted by State law from sales and use taxes, including items purchased for resale, certain coin-operated machine sales, food products (except food products which are sold for immediate consumption, e.g. by restaurants, lunch counters, etc.), health care supplies (including medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential and certain other uses (unless a city has taken steps to repeal the exemption), certain property used in manufacturing, telecommunication services, newspapers, magazines, and basic fees for Internet access service. During an annual tax holiday, school clothing and supplies and other items are exempt. In addition, items which are taxed under other State laws are generally exempted from sales taxes. These items include certain natural resources, cement, motor vehicles and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes, as well as through the sales taxes. In addition, purchases made by various exempt organizations are not subject to the sales and use taxes. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. Also, State law provides an exemption from sales taxes on items purchased under a contract in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years.

In general, a sale of a taxable item is deemed to occur within the political subdivision, county or special district in which the sale is consummated. The tax levied on the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed. Thus, the use is considered to be consummated in a political subdivision, and the tax is levied there if the item is shipped from outside the state to a point within the political subdivision.

While any of the Remaining Pledged Outstanding Bonds remain outstanding, the District has covenanted to transfer from its General Operating Fund to its Debt Service Fund the lesser of (a) the first \$500,000 of Contract Sales Tax Revenue received annually from the City pursuant to the SPA or (b) the debt service amount on the Pledged Outstanding Bonds, during the term of the SPA, which ends on December 12, 2029, which is derived from the 1% City Sales Tax that is currently imposed on all taxable transactions within the District. This transfer shall occur on or before September 1 of each year.

*Other Sales Taxes.* In addition to the City Sales Tax and the Metro Sales Tax as described earlier, the State levies and collects a 6.25% sales and use tax against essentially the same taxable items and transactions as the City's sales tax is levied. Under current State law, the maximum aggregate sales and use tax which may be levied within a given area by most authorized political subdivisions and municipalities within such area, including the State, is 8.25%. The current aggregate sales and use tax levied in the District is 8.25%, of which 6.25% is levied by the State, 1% is levied by the City and 1% is levied by Metro.

*Collection and Administration.* The Comptroller administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying municipalities, counties, political subdivisions and other special districts having sales tax powers, such as the City and Metro. Certain limited items are taxed for the benefit of the State under sales tax statutes, such as certain natural resources and other items described above, and are not subject to the sales tax base available to political subdivisions, municipalities, counties and other special districts, including the tax base against which the City Sales Tax is levied. Political subdivisions

may by local option determine to tax certain telecommunication services on the same basis as the State taxes such services or to opt out of the tax holiday. With respect to the taxation of the residential use of gas and electricity, the State is not authorized to collect a sales tax, while political subdivisions, on a local option basis, may tax such use. The City has not opted out of the tax holiday.

In recent years, several changes in the State sales tax laws have contributed to the growth of local sales tax revenues. These changes have added additional goods and services to the list of taxable items. Other items have been subjected to sales tax on an interim basis or have been taxed pursuant to legislation which includes planned phase-outs of the tax.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing \$500 or more in sales and use taxes in a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than \$500 in sales and use taxes in a calendar month, or \$1,500 in a calendar quarter, submit their tax collections quarterly. Taxpayers owing less than \$1,000 annually may submit their tax collections annually. Generally, taxpayers are required to submit tax reports to the Comptroller on the same date as payment is due. The Comptroller is required by law to distribute funds to the receiving political subdivisions periodically and as promptly as feasible, but not less frequently than twice during each fiscal year of the State. Historically, and at the present time, the Comptroller distributes the funds monthly with the largest payments being made quarterly in February, May, August and November. The Comptroller has initiated a direct deposit program using electronic funds transfers to expedite the distribution of monthly allocation checks. If a political subdivision desires to participate in the electronic funds transfers, it may make application to the Comptroller. The City participates in this program. Otherwise, the Comptroller mails the monthly allocation check, which it typically received by the middle of the month following the month in which the taxpayer reports and remits payment on the tax.

The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under current State law, the Comptroller utilizes sales tax permits, sales tax bonds and audits to encourage, timely payment of sales and use taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid for only one year, requiring an annual renewal. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use taxes in the State annually), every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods: (i) collection by an automated collection center or local field office, (ii) estimating the taxpayer's liability based on the highest amount due in the previous 12 months and billing the taxpayer for the estimated amount, (iii) filing liens and requiring a new or increased payment bond, (iv) utilizing forced collections procedures, such as seizing assets of the taxpayer (such as a banking account) or freezing assets of the taxpayer that are in the custody of third parties, (v) removing a taxpayer's sales and use tax permit, and (vi) certifying the account to the Office of the Attorney General of Texas for the filing of suit for collection. A political subdivision may not sue for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

### **Historical City Sales Tax Revenue and Collection of Contract Sale Tax**

The City began imposing the City Sales Tax upon businesses within the District on April 1, 2001, with the first collections received on August 1, 2001. Initial collections by the City from the Comptroller and transfers to the District were lengthy, but since June 1, 2001, procedures have been in place to smoothly facilitate collections and transfers to the District. City Sales Taxes are generally received by the City from the Comptroller two months after the period of collection from the Comptroller. The table below represents the annual City and District collections for 2011 through 2018. Contract Sales Tax Revenue represents one-half of the 1% City Sales Tax. Only the first \$500,000 of Contract Sales Tax Revenue received by the District during a

calendar each year is Pledged Contract Revenue, but not to the Bonds, and only during the term of the SPA, which ends on December 12, 2029, or while any of the Remaining Pledged Outstanding Bonds remain outstanding.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>District Sales</u> <u>Tax Receipts</u>
2018	\$1,859,303
2017	1,389,081
2016	1,196,510
2015	1,286,302
2014	1,374,286
2013	1,337,764
2012	1,220,683
2011	1,145,368

### **Major Sources of Sales Taxes in the District**

The City Sales Tax is levied by the City on all taxable transactions within the District. Most of the City Sales Tax revenues are from the retail establishments shown herein under “DEVELOPMENT WITHIN THE DISTRICT.” The amount of actual City Sales Tax revenues or City Sales Taxes generated by particular retail establishments is deemed confidential and protected by State law.

### **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 Remaining Outstanding Bonds, 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 (the “Appraisal District”) has the responsibility of appraising property for all taxing units within Harris County including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”).

#### **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 has not granted such exemption. 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 of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has not adopted a general homestead exemption.

***Freeport Goods Exemption:*** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2012 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 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a

public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Harris County or the City 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, 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 District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, 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 District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

## **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board 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 District 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 over the previous year. 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 effective 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 \$0.54 per \$100 of assessed valuation and a maintenance tax of \$0.57 per \$100 of assessed valuation for the 2018 tax year.

**Tax Rate Limitation**

Debt Service: Unlimited (no legal limit as to rate or amount).  
 Maintenance: \$1.00 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 \$1.00 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 that would be required to meet certain debt service requirements on the Remaining Outstanding Bonds and the Bonds if Pledged Contract Revenue is applied toward payment of debt service on the Remaining Pledged Outstanding Bonds and no growth in the District’s tax base occurs beyond the 2018 Taxable Assessed Valuation (\$359,744,368). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Net Average Annual Debt Service Requirements (2019–2040).....	\$1,484,404
Tax Rate of \$0.44 on the 2018 Taxable Assessed Valuation produces.....	\$1,503,731
Net Maximum Annual Debt Service Requirement (2021).....	\$2,240,343
Tax Rate of \$0.66 on the 2018 Taxable Assessed Valuation produces.....	\$2,255,597

## 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 a chart 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	2018 Tax Rate
Clear Creek Independent School District	\$1.400000
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
The District	<u>1.110000</u>
Total Tax Rate	\$3.145170

## Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 10/31/2018
2012	\$178,804,025	\$1.11	\$1,984,725	99.91%	2013	99.90%
2013	200,605,412	1.11	2,226,720	99.77	2014	99.91
2014	240,221,925	1.11	2,666,463	99.80	2015	99.92
2015	255,148,892	1.11	2,832,153	99.83	2016	99.87
2016	263,909,472	1.11	2,929,395	99.61	2017	99.64
2017	330,102,688	1.11	3,664,140	99.91	2018	99.93
2018	359,744,368	1.11	3,993,162	(b)	2019	(b)

(a) Total tax rate per \$100 of assessed valuation for each respective tax year. See "Tax Rate Distribution" below.

(b) In process of collections.

## Tax Rate Distribution

The following sets out the components of the District's tax rate for each of tax years 2013–2018.

	2018	2017	2016	2015	2014	2013
Debt Service	\$0.540	\$0.570	\$0.720	\$0.840	\$0.775	\$0.710
Maintenance	<u>\$0.570</u>	<u>\$0.540</u>	<u>\$0.390</u>	<u>\$0.270</u>	<u>\$0.335</u>	<u>\$0.400</u>
Total	\$1.110	\$1.110	\$1.110	\$1.110	\$1.110	\$1.110



**Assessed Taxable Valuation Summary**

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

Type of Property	2018 Assessed Taxable Valuation	2017 Assessed Taxable Valuation	2016 Assessed Taxable Valuation	2015 Assessed Taxable Valuation	2014 Assessed Taxable Valuation
Land	\$133,256,943	\$122,054,108	\$107,543,119	\$108,381,759	\$108,665,521
Improvements	190,250,116	169,000,688	165,567,815	110,840,731	100,792,375
Personal Property	51,297,579	48,936,486	44,654,790	44,238,581	38,988,126
Exemptions	<u>(15,060,270)</u>	<u>(9,888,594)</u>	<u>(53,856,252)</u>	<u>(8,312,179)</u>	<u>(8,224,097)</u>
Total	\$359,744,368	\$330,102,688	\$263,909,472	\$255,148,892	\$240,221,925

**Principal Taxpayers**

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

Taxpayer (a)	Type of Property	Assessed Valuation 2018 Tax Roll
Sueba Development 142 LP	Land & Improvements	\$41,803,830
Baybrook LPC LLC	Land & Improvements	41,785,164
OWRF Baybrook LLC	Land & Improvements	39,394,736
Eastfield Realty Inc	Land & Improvements	29,544,268
Texas Baybrook Square Center	Land & Improvements	29,207,982
Grayson at Baybrook LLC	Land & Improvements	23,279,082
Passage Realty Inc.	Land & Improvements	19,228,108
Health Care Reit Inc.	Land & Improvements	15,300,000
Lowe's Home Center Inc.	Land, Improvements & Personal	14,758,036
Target Corporation	Land, Improvements & Personal	<u>14,551,897</u>
Total		\$268,853,103
Percentage of 2018 Assessed Valuation		74.73%

(a) See “PRINCIPAL LANDOWNERS AND DEVELOPERS.”

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## **THE SYSTEM**

### **General**

The water and wastewater facilities, the purchase, acquisition and construction of which have been financed by the District with the proceeds from certain of the District's prior bond issues, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ. According to LJA Engineering, Inc. (the "Engineer"), the design of all such facilities has been approved by all governmental agencies, which have jurisdiction over the District.

### **Description**

The water, wastewater and drainage facilities which were constructed on behalf of the District are described below, based upon information obtained from the Engineer:

#### - Water Supply -

The District entered into a contract with the City of Houston to share in the construction of the City of Houston's Southeast Water Purification Plant (the "SEWPP"), which supplies treated surface water to the District. The District has purchased capacity for 1.8 million gallons per day ("MGD") from the SEWPP, which represents approximately 0.9% of the SEWPP's total capacity of 200 MGD. Under the terms of the contract with the City of Houston, the SEWPP is operated by the City of Houston, and the District is responsible for its pro-rata share of the operation and maintenance of the SEWPP.

The District receives treated water from the SEWPP from two transmission lines: a 24-inch line with a capacity of 12 MGD and a 12-inch line with capacity of 3 MGD for a total transmission line capacity of 15 MGD.

The District owns and operates Water Plant No. 1, which is used to repressurize the flows received from the SEWPP. Water Plant No. 1 consists of a 420,000 gallon ground storage tank, a 20,000 gallon hydropneumatic tank and two 500 gallon per minute ("GPM") booster pumps. The District's water plant in conjunction with the flows from the SEWPP are sufficient to serve 1,328 equivalent single-family connections ("ESFCs"). The District currently serves approximately 1,041 ESFCs within the District.

The District also has an emergency water interconnect with the City of Webster.

#### - Wastewater Treatment -

The District currently receives wastewater treatment service through its participation in the Blackhawk Regional Wastewater Treatment Plant ("WWTP"), a 9.25 MGD plant operated by Gulf Coast Waste Disposal Authority. The District owns 1.025 MGD (approximately 11.08%) of capacity in the WWTP, which is sufficient to serve approximately 3,417 ESFCs. The District currently serves approximately 1,041 ESFCs within the District.

#### - Drainage -

The District is within the Clear Creek watershed. The majority of the District area drains into Harris County Flood Control District Ditch No. A111-00-00. Developed areas are collected by curb and gutter, routed through detention ponds, then released into Ditch No. A111-00-00, which drains into Clear Creek beyond the boundaries of the District.

## Operating History

The following is a summary of the District's operating fund for the last five years. They were obtained from the District's annual financial statements for the fiscal year ended June 30, 2018, reference to which is hereby made (see "APPENDIX A"). The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended June 30				
	2018	2017	2016	2015	2014
<b>Revenues</b>					
Water service	\$ 250,351	\$ 260,566	\$ 244,342	\$ 193,541	\$ 176,787
Sewer service	189,655	204,720	170,655	152,080	131,736
Property taxes	1,744,667	1,099,749	687,653	819,948	779,063
Penalties and interest	3,329	722	1,310	8,167	271
Tap connection and inspection	17,835	29,425	23,197	139,271	184,276
Sales tax revenue	1,859,303	1,389,081	1,196,510	1,411,995	1,374,286
Miscellaneous	14,736	12,589	2,443	961	25
Investment earnings	<u>174,091</u>	<u>100,956</u>	<u>25,991</u>	<u>15,889</u>	<u>14,558</u>
<b>Total Revenues</b>	<b>\$ 4,253,967</b>	<b>\$ 3,097,808</b>	<b>\$ 2,352,101</b>	<b>\$ 2,741,852</b>	<b>\$ 2,661,002</b>
<b>Expenditures</b>					
Purchased services	\$ 209,361	\$ 210,440	\$ 167,202	\$ 144,367	\$ 174,448
Professional fees	439,892	269,507	298,816	351,813	216,082
Contracted services	90,612	79,720	72,151	108,760	122,921
Repairs and maintenance	427,990	330,000	358,922	293,648	213,781
Utilities	43,721	37,220	40,052	32,676	27,019
Administrative	51,750	59,828	50,792	59,771	47,649
Other	46,874	31,216	9,221	29,602	18,949
Capital outlay	1,258,293	1,438,473	370,061	1,529,869	2,986,872
Intergovt. Capital Contribution	<u>7,683</u>	<u>36,248</u>	<u>68,371</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b>	<b>\$ 2,576,176</b>	<b>\$ 2,492,652</b>	<b>\$ 1,435,588</b>	<b>\$ 2,550,506</b>	<b>\$ 3,807,721</b>

## INVESTMENT CONSIDERATIONS

### General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas, Harris County, Texas, 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

*Economic Factors:* The rate of development within the District is directly related to the vitality of the commercial and multi-family housing industry in the Houston metropolitan area. New commercial and multi-family construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of commercial and multi-family construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District. See "DEVELOPMENT WITHIN THE DISTRICT – Status of Development." The Houston area economy has significant exposure to the oil and gas industry. Any extended downturn in such industry could negatively impact the District's taxable value, and consequently, the security of the Bonds.

*Location and Access:* The District is located in an outlying area of the Houston metropolitan area, approximately 21 miles southeast from the central business district of the City of Houston, adjacent to Interstate Highway 45. Many of the mixed-use developments with which the District competes are in a more developed state and have lower taxes. As a result, particularly during times of increased competition, the developer within the District may be at a competitive disadvantage to the developers in other mixed-use projects located closer to major urban centers or in a more developed state. See “THE DISTRICT” and “DEVELOPMENT WITHIN THE DISTRICT.”

*Principal Landowners’ Obligations to the District:* The District’s tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption “TAX DATA – Principal Taxpayers,” the District’s ten principal taxpayers in 2018 owned property located in the District, the aggregate assessed valuation of which comprised approximately 74% of the District’s total assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District’s principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. The District levied a tax of \$1.11 per \$100 of assessed valuation for 2018.

*Maximum Impact on District Tax Rates:* Assuming no further development, the value of the land and commercial or multi-family improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2018 Taxable Assessed Valuation of property located within the District (see “TAX DATA”) is \$359,744,368. After issuance of the Bonds, the net maximum annual debt service requirement on the Remaining Outstanding Bonds and the Bonds will be \$2,240,343 (2021) and the net average annual debt service requirement will be \$1,484,404 (2019–2040). Assuming no increase to nor decrease from the 2018 Taxable Assessed Valuation, tax rates of \$0.66 and \$0.44 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the net maximum annual debt service requirement and the net average annual debt service requirement, respectively.

Increases in the District’s tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

### **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.

### **Dependence on Collection of Contract Sales Tax Revenue**

Contract Sales Tax Revenues are a significant source of payment for the Remaining Pledged Outstanding Bonds. The District has covenanted to transfer annually, before September 1 of each year, from its General Operating Fund to its Debt Service Fund the lesser of (a) the first \$500,000 of Contract Sales Tax Revenue received annually from the City pursuant to the SPA or (b) the debt service amount on the Remaining Pledged Outstanding Bonds to the extent there are sufficient Contract Sales Tax Revenues and during the term of the SPA, which expires on December 12, 2029. The amount of the Pledged Contract Revenue derived from the Contract Sales Tax Revenue is closely related to the amount of economic activity in the District. Sales tax receipts, unlike other taxes levied by political subdivisions, immediately reflect changes in economic conditions. The District began receiving Contract Sales Tax Revenue in August 2001. The SPA currently terminates on December 12, 2029. Assuming no increase to nor decrease from the 2018 Assessed Valuation and no Pledged Contract Revenues a tax rate of \$0.31 per \$100 of assessed valuation would be necessary to pay the average annual debt service requirement on the Remaining Outstanding Bonds and the Bonds from 2031 to 2040. See "CONTRACT SALES TAX REVENUE" and "STRATEGIC PARTNERSHIP AGREEMENT."

Historically, the Comptroller of Public Accounts of the state (the "Comptroller") has remitted sales and use tax allocation checks to political subdivisions on a monthly basis, but State law currently requires that such allocation be made at least twice annually and such procedures could change in the future without the City's or District's consent. Additionally, the taxable items and services subject to State and local sales and use taxes are subject to legislative action, and are reviewed every session by the State Legislature and are changed periodically by the State Legislature. State law provides that the Sales Tax cannot be levied against any taxable item or service unless such item or service is also subject to the State sales and use tax.

In recent years the State Legislature has enacted laws permitting the State, together with its political subdivisions, to levy sales and use taxes of up to 8.25%, which is among the highest sales tax rates in the nation (although the State has no personal or corporate income tax), and the current total sales and use tax rate within the District's boundaries for State, City and the Metropolitan Transit Authority ("Metro") purposes is 8.25%. The rate of the sales and use taxes authorized in the State could be further increased by the State Legislature, and the District has no way of predicting any such increase or the resulting effects, if any, on the collectability of the portion of the City Sales Tax which is pledged toward the payment of debt service on the Remaining Pledged Outstanding Bonds. State leaders have appointed committees to study methods of achieving greater tax equity within the State's tax system. Any changes which may be enacted by the State Legislature could affect the tax base against which the Sales Tax is levied, and the District, except in certain limited instances described above, has no control over the components of the tax base. The District has no statutory authority to increase or decrease the maximum authorized rate of the Sales Tax.

City Sales Tax receipts received by the City and in turn the District, pursuant to the SPA, are expected to be subject to seasonal variations and to changes in State laws and administrative practices governing the remittance of sales and use tax receipts which authorize certain taxpayers to remit tax receipts at different times throughout the year.

### **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 District reserves in the Bond Resolution the right to issue the remaining \$18,065,000 authorized but unissued bonds for construction of the System and refunding purposes and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, inferior lien bonds, and other obligations described in the Bond Resolution. All the remaining \$18,065,000 bonds for construction of the System, and for refunding purposes which have heretofore been authorized by the voters of the District, may be issued by the District, with the approval of the TCEQ, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

To date, the District has fully reimbursed the Developer and the Principal Landowners for funds advanced on behalf of the District. If the Developer or Principal Landowners are entitled to reimbursement in the future, the District may issue bonds to reimburse such costs or may use a combination of cash on hand and bond proceeds to reimburse such costs. With respect to the District's issuance of additional bonds to reimburse such costs, the District may do so after approval of the TCEQ for water, sewer and drainage bonds. In addition, future, changes in health, environmental, or other governmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

### **Competitive Nature of Commercial and Multi-Family Housing Market**

The commercial and multi-family housing industry in the Houston area is very competitive, and the District can give no assurance that further development of land within the District for commercial or multi-family housing purposes will be continued or completed. The respective competitive positions of the developers and any of the commercial users are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes. 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."

### **Environmental Regulations**

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

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

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

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

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

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

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

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

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

the HGB area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB area's economic growth and development.

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

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

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

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

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

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

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



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

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.

#### **Potential Impact of Natural Disaster**

The District is located along the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District’s tax rates. See “TAXING PROCEDURES – Valuation of Property for Taxation.”

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from weather-related events.

#### **Hurricane Harvey**

On August 26, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast and severely impacted numerous localities in the region. The District and its facilities did not sustain any significant damage due to Hurricane Harvey. The Gulf Coast regions where the District is located is subject to occasional destructive weather events, and there is no assurance that the District will not suffer damages from such destructive weather events in the future. See “INVESTMENT CONSIDERATIONS – Potential Impact of Natural Disaster.”

#### **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 which are more frequently bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS.”

## **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**

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" 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.

## **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 District which is recovered by the District 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. See "BOND INSURANCE POLICY."

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 nor the 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.

### **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 limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income for federal tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

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

### **No-Litigation Certificate**

The District will furnish the Underwriter 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 Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall

have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

### **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. The District will further rely on the report of The Arbitrage Group, Inc. 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 or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments made 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.

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

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

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

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

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

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

## **Qualified Tax-Exempt Obligations**

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2019 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2019.

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

### **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 maturing principal amounts of and interest on the Escrowed Obligations to be held by the Escrow Agent 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 the Escrowed Obligations, and (c) certain requirements of the City of Houston Ordinance No. 97-416 relating to the refunding of indebtedness was verified by The Arbitrage Group, Inc. The computations were independently verified by The Arbitrage Group, Inc. based upon certain assumptions and information supplied by the Underwriter on behalf of the District, and the District. The Arbitrage Group, Inc. 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 via 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. The District will provide the updated information via EMMA.

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 the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

### **Event Notices**

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

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **OFFICIAL STATEMENT**

### **Preparation**

The information in this Official Statement has been obtained from sources as set forth herein under the following captions:

"THE DISTRICT," "THE SYSTEM," – the Engineer; "PRINCIPAL LANDOWNERS AND THE DEVELOPER," "DEVELOPMENT WITHIN THE DISTRICT" – The Developer, "DISTRICT FINANCIAL DATA" – Harris County Appraisal District, "ESTIMATED OVERLAPPING DEBT STATEMENT"–Municipal Advisory Council of Texas; "TAX DATA"–Records and Tax: Assessor/Collector; "MANAGEMENT"– District Directors, "STRATEGIC PARTNERSHIP AGREEMENT," "CONTRACT SALES TAX REVENUE," "THE BONDS," "CONTINUING DISCLOSURE OF INFORMATION," "TAXING PROCEDURES," "LEGAL MATTERS" and "TAX MATTERS"– Allen Boone Humphries Robinson LLP and "BOOK-ENTRY-ONLY SYSTEM" -DTC.

### **Experts**

In approving this Official Statement, the District has relied upon the following experts in addition to the Financial Advisor.

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

*Appraisal District:* The information contained in the Official Statement relating to principal taxpayers and tax collection rates and the certified assessed valuation of property in the District and, in particular such information contained in the sections captioned "FINANCIAL STATEMENT" and "TAX DATA" has been provided by the Harris County Appraisal District, in reliance upon the authority as experts in appraising and tax assessing.

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

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

### **Updating of Official Statement**

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



supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District 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 Baybrook Municipal Utility District No. 1 as of the date shown on the cover page hereof.

/s/ Mark Hardy  
President, Board of Directors  
Baybrook Municipal Utility District No. 1

ATTEST:

/s/ David Martin  
Secretary, Board of Directors  
Baybrook Municipal Utility District No. 1

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

**BAYBROOK MUNICIPAL  
UTILITY DISTRICT NO. 1**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**June 30, 2018**

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# McGRATH & CO., PLLC

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

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Baybrook Municipal Utility District No. 1, as of and for the year ended June 30, 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  
Baybrook Municipal Utility District No. 1  
Harris County, Texas***

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Baybrook Municipal Utility District No. 1, as of June 30, 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. G. & Co, P.C.*

Houston, Texas  
October 23, 2018

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

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***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

**Using this Annual Report**

Within this section of the financial report of Baybrook Municipal Utility District No. 1 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 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.

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 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 June 30, 2018, was \$33,979,362. A comparative summary of the District's overall financial position, as of June 30, 2018 and 2017, is as follows:

	2018	2017
Current and other assets	\$ 21,883,565	\$ 19,194,301
Capital assets	40,778,042	39,936,840
Total assets	<u>62,661,607</u>	<u>59,131,141</u>
 Total deferred outflows of resources	 <u>521,311</u>	 <u>564,754</u>
 Current liabilities	 2,081,307	 2,134,988
Long-term liabilities	27,122,249	28,880,405
Total liabilities	<u>29,203,556</u>	<u>31,015,393</u>
 Net position		
Net investment in capital assets	12,448,532	9,953,988
Restricted	1,574,956	1,975,477
Unrestricted	19,955,874	16,751,037
Total net position	<u>\$ 33,979,362</u>	<u>\$ 28,680,502</u>

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

The total net position of the District increased during the current fiscal year by \$5,298,860. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2018	2017
Revenues		
Water and sewer service	\$ 440,006	\$ 465,286
Property taxes, penalties and interest	3,569,479	3,133,554
Sales tax rebates	3,754,207	2,823,064
Other	275,852	181,628
Total revenues	<u>8,039,544</u>	<u>6,603,532</u>
Expenses		
Current service operations	1,394,385	1,106,219
Capital contributions	7,683	36,248
Debt interest and fees	1,048,112	1,094,831
Depreciation	718,767	714,334
Total expenses	<u>3,168,947</u>	<u>2,951,632</u>
Change in net position before other items	4,870,597	3,651,900
Other items		
Capital contributions		274,826
Settlement proceeds	428,263	
Change in net position	5,298,860	3,926,726
Net position, beginning of year	28,680,502	24,753,776
Net position, end of year	<u>\$ 33,979,362</u>	<u>\$ 28,680,502</u>

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

The District's combined fund balances, as of June 30, 2018, were \$21,365,568, which consists of \$14,881,793 in the General Fund, \$1,692,634 in the Debt Service Fund, \$46,428 in the Capital Projects Fund, and \$4,744,713 in the Special Revenue Fund.

*General Fund*

A comparative summary of the General Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 15,187,443</u>	<u>\$ 13,927,496</u>
Total liabilities	\$ 134,083	\$ 203,892
Total deferred inflows	171,567	150,584
Total fund balance	14,881,793	13,573,020
Total liabilities, deferred inflows and fund balance	<u>\$ 15,187,443</u>	<u>\$ 13,927,496</u>

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 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	\$ 4,253,967	\$ 3,097,808
Total expenditures	<u>(2,576,176)</u>	<u>(2,492,652)</u>
Revenues over expenditures	1,677,791	605,156
Other changes in fund balance	<u>(369,018)</u>	<u>(79,281)</u>
Net change in fund balance	<u>\$ 1,308,773</u>	<u>\$ 525,875</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 sales tax rebates received from the City of Houston. 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 assessed values increased from prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- 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 June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Total assets	<u>\$ 1,747,017</u>	<u>\$ 2,141,310</u>
Total liabilities	\$ 14,092	\$ 92
Total deferred inflows	40,291	33,859
Total fund balance	1,692,634	2,107,359
Total liabilities, deferred inflows and fund balance	<u>\$ 1,747,017</u>	<u>\$ 2,141,310</u>

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

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

	2018	2017
Total revenues	\$ 1,838,113	\$ 2,050,147
Total expenditures	(2,752,838)	(2,746,012)
Revenues under expenditures	(914,725)	(695,865)
Other changes in fund balance	500,000	500,000
Net change in fund balance	<u>\$ (414,725)</u>	<u>\$ (195,865)</u>

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

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 46,466</u>	<u>\$ 50,390</u>
Total liabilities	\$ 38	\$ 2,591
Total fund balance	46,428	47,799
Total liabilities and fund balance	<u>\$ 46,466</u>	<u>\$ 50,390</u>

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

	2018	2017
Total revenues	\$ 737	\$ 3,366
Total expenditures	(2,108)	(295,200)
Revenues under expenditures	(1,371)	(291,834)
Other changes in fund balance		(145,893)
Net change in fund balance	<u>\$ (1,371)</u>	<u>\$ (437,727)</u>

The District did not have any significant capital asset activity in the current fiscal year. In the previous fiscal year capital asset activity was for improvements to existing facilities.

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

*Special Revenue Fund*

A comparative summary of the Special Revenue Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 4,902,639</u>	<u>\$ 3,075,105</u>
Total liabilities	\$ 125	\$ 47,672
Total deferred inflows	157,801	140,000
Total fund balance	<u>4,744,713</u>	<u>2,887,433</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 4,902,639</u>	<u>\$ 3,075,105</u>

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

	2018	2017
Total revenues	<u>\$ 1,901,512</u>	<u>\$ 1,404,663</u>
Total expenditures	<u>(44,232)</u>	<u>(217,709)</u>
Revenues over expenditures	<u>\$ 1,857,280</u>	<u>\$ 1,186,954</u>

Financial resources in the Special Revenue Fund consist of sales tax revenues received from the Metropolitan Transit Authority ("METRO") pursuant to the Congestion Mitigation/Traffic Management Agreement entered into with METRO. These funds are to be used for transportation projects in the District. Total revenues exceeded expenditures in the current and prior year resulting in an increase in fund balance.

**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 \$1,079,337 greater than budgeted. The *Budgetary Comparison Schedule* on page 36 of this report provides variance information per financial statement line item.

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

**Capital Assets**

Capital assets held by the District at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 17,745,177</u>	<u>\$ 16,362,468</u>
Capital assets being depreciated		
Infrastructure	31,210,694	31,033,434
Less accumulated depreciation	<u>(8,177,829)</u>	<u>(7,459,062)</u>
Depreciable capital assets, net	<u>23,032,865</u>	<u>23,574,372</u>
Capital assets, net	<u><u>\$ 40,778,042</u></u>	<u><u>\$ 39,936,840</u></u>

Capital asset additions during the current year include the land purchase of 4.153 acres for detention and lift station tracts/Eastfield 95 tract.

**Long-Term Debt**

At June 30, 2018 and 2017, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2018</u>	<u>2017</u>
2008	\$ 200,000	\$ 300,000
2011 Refunding	1,275,000	1,875,000
2011	3,125,000	3,225,000
2014 Refunding	3,750,000	4,235,000
2015	12,880,000	13,225,000
2016 Refunding	8,015,000	8,100,000
	<u><u>\$ 29,245,000</u></u>	<u><u>\$ 30,960,000</u></u>

At June 30, 2018, the District had \$18,275,000 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 for refunding such bonds.

**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, sales tax revenues, water/sewer services, and the projected cost of operating the District and providing services to customers.

***Baybrook Municipal Utility District No. 1  
Management's Discussion and Analysis  
June 30, 2018***

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

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 4,253,967	\$ 4,312,309
Current service operations expenditures	(2,576,176)	(1,748,378)
Capital expenditures		<u>(9,060,035)</u>
Revenues over/(under) expenditures	<u>1,677,791</u>	<u>(6,496,104)</u>
Other changes in fund balance	<u>(369,018)</u>	
Net change in fund balance	1,308,773	(6,496,104)
Beginning fund balance	<u>13,573,020</u>	<u>14,881,793</u>
Ending fund balance	<u><u>\$ 14,881,793</u></u>	<u><u>\$ 8,385,689</u></u>

The District's 2019 Budget includes \$6,496,104 in capital expenditures that will be financed with existing General Fund operating surplus. This amount is reported as assigned fund balance on the *Governmental Funds Balance Sheet*.

**Property Taxes**

The District's property tax base increased approximately \$9,713,000 for the 2018 tax year from \$331,346,449 to \$341,059,746. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.57 per \$100 of assessed value and a debt service tax rate of \$0.54 per \$100 of assessed value, for a total combined tax rate of \$1.11 per \$100. Tax rates for the 2017 tax year were \$0.54 per \$100 for maintenance and operations and \$0.57 per \$100 for debt service.



## **Basic Financial Statements**

**Baybrook Municipal Utility District No. 1**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**June 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
<b>Assets</b>					
Cash	\$ 77,475	\$ 95,010	\$ 100	\$ 8,807	\$ 181,392
Investments	14,406,556	1,652,929	46,366	4,441,136	20,546,987
Taxes receivable, net	13,766	40,291			54,057
Customer service receivables	48,587				48,587
Due from other governments	451,004			441,784	892,788
Accrued interest receivables	45,404	7,014		10,912	63,330
Internal balances	48,227	(48,227)			
Operating reserve - Wastewater Treatment Plant	96,424				96,424
Capital assets not being depreciated					
Capital assets, net					
<b>Total Assets</b>	<b>\$ 15,187,443</b>	<b>\$ 1,747,017</b>	<b>\$ 46,466</b>	<b>\$ 4,902,639</b>	<b>\$ 21,883,565</b>
<b>Deferred Outflows of Resources</b>					
Deferred difference on refunding					
<b>Liabilities</b>					
Accounts payable	\$ 132,473	\$ -	\$ 38	\$ 125	\$ 132,636
Other payables	1,610	14,092			15,702
Accrued interest payable					
Long-term debt					
Due within one year					
Due after one year					
<b>Total Liabilities</b>	<b>134,083</b>	<b>14,092</b>	<b>38</b>	<b>125</b>	<b>148,338</b>
<b>Deferred Inflows of Resources</b>					
Deferred sales tax rebates	157,801			157,801	315,602
Deferred property taxes	13,766	40,291			54,057
<b>Total Deferred Inflows</b>	<b>171,567</b>	<b>40,291</b>		<b>157,801</b>	<b>369,659</b>
<b>Fund Balances/Net Position</b>					
<b>Fund Balances</b>					
Nonspendable	96,424				96,424
Restricted		1,692,634	46,428	4,744,713	6,483,775
Assigned	6,496,104				6,496,104
Unassigned	8,289,265				8,289,265
<b>Total Fund Balances</b>	<b>14,881,793</b>	<b>1,692,634</b>	<b>46,428</b>	<b>4,744,713</b>	<b>21,365,568</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 15,187,443</b>	<b>\$ 1,747,017</b>	<b>\$ 46,466</b>	<b>\$ 4,902,639</b>	<b>\$ 21,883,565</b>
<b>Net Position</b>					
Net investment in capital assets					
Restricted for debt service					
Unrestricted					
<b>Total Net Position</b>					

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ -	\$ 181,392
	20,546,987
	54,057
	48,587
	892,788
	63,330
	96,424
17,745,177	17,745,177
<u>23,032,865</u>	<u>23,032,865</u>
<u>40,778,042</u>	<u>62,661,607</u>
<u>521,311</u>	<u>521,311</u>
	132,636
	15,702
157,969	157,969
1,775,000	1,775,000
<u>27,122,249</u>	<u>27,122,249</u>
<u>29,055,218</u>	<u>29,203,556</u>
(315,602)	
<u>(54,057)</u>	
<u>(369,659)</u>	
(96,424)	
(6,483,775)	
(6,496,104)	
<u>(8,289,265)</u>	
<u>(21,365,568)</u>	
12,448,532	12,448,532
1,574,956	1,574,956
19,955,874	19,955,874
<u>\$ 33,979,362</u>	<u>\$ 33,979,362</u>

**Baybrook Municipal Utility District No. 1**

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
<b>Revenues</b>					
Water service	\$ 250,351	\$ -	\$ -	\$ -	\$ 250,351
Sewer service	189,655				189,655
Property taxes	1,744,667	1,809,600			3,554,267
Penalties and interest	3,329	2,269			5,598
Tap connection and inspection	17,835				17,835
Sales tax rebates	1,859,303			1,859,303	3,718,606
Miscellaneous	14,736	930			15,666
Investment earnings	174,091	25,314	737	42,209	242,351
<b>Total Revenues</b>	<b>4,253,967</b>	<b>1,838,113</b>	<b>737</b>	<b>1,901,512</b>	<b>7,994,329</b>
<b>Expenditures/Expenses</b>					
Current service operations					
Purchased services	209,361				209,361
Professional fees	439,892		723	11,208	451,823
Contracted services	90,612	40,911	787	1,938	134,248
Repairs and maintenance	427,990			27,196	455,186
Utilities	43,721				43,721
Administrative	51,750	1,328			53,078
Other	46,874			94	46,968
Capital outlay	1,258,293		598	3,796	1,262,687
Intergovernmental					
Capital contributions	7,683				7,683
Debt service					
Principal		1,715,000			1,715,000
Interest and fees		995,599			995,599
Depreciation					
<b>Total Expenditures/Expenses</b>	<b>2,576,176</b>	<b>2,752,838</b>	<b>2,108</b>	<b>44,232</b>	<b>5,375,354</b>
<b>Revenues Over (Under) Expenditures/Expenses</b>	<b>1,677,791</b>	<b>(914,725)</b>	<b>(1,371)</b>	<b>1,857,280</b>	<b>2,618,975</b>
<b>Other Financing Sources/(Uses)</b>					
Internal transfers	(500,000)	500,000			
<b>Other Items</b>					
Settlement proceeds	130,982				130,982
<b>Net Change in Fund Balances</b>	<b>1,308,773</b>	<b>(414,725)</b>	<b>(1,371)</b>	<b>1,857,280</b>	<b>2,749,957</b>
<b>Change in Net Position</b>					
Fund Balance/Net Position					
Beginning of the year	13,573,020	2,107,359	47,799	2,887,433	18,615,611
<b>End of the year</b>	<b>\$ 14,881,793</b>	<b>\$ 1,692,634</b>	<b>\$ 46,428</b>	<b>\$ 4,744,713</b>	<b>\$ 21,365,568</b>

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 250,351
	189,655
5,770	3,560,037
3,844	9,442
	17,835
35,601	3,754,207
	15,666
	242,351
<u>45,215</u>	<u>8,039,544</u>
	209,361
	451,823
	134,248
	455,186
	43,721
	53,078
	46,968
(1,262,687)	
	7,683
(1,715,000)	
52,513	1,048,112
718,767	718,767
<u>(2,206,407)</u>	<u>3,168,947</u>
2,251,622	4,870,597
<u>297,281</u>	<u>428,263</u>
(2,749,957)	
5,298,860	5,298,860
<u>10,064,891</u>	<u>28,680,502</u>
<u>\$ 12,613,794</u>	<u>\$ 33,979,362</u>

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***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

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

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

**Creation**

The District was organized, created and established pursuant to an order of the Texas Water Rights Commission, dated July 9, 1984, and operates in accordance with the Texas Water Code, Chapters 49 and 54.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District also obtained road powers in 2001. 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, sales tax rebates and water and sewer service fees. Expenditures include costs associated with the daily operations of the District and construction of the District's water, sewer and drainage facilities.
- 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 sources of revenue for debt service is property taxes and transfers from the General Fund from sales tax rebates. 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 sales and use tax revenues for the construction, acquisition and improvements of transportation projects.

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, sales tax rebates, 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 June 30, 2018, an allowance of \$14,542 was provided for possible uncollectible property taxes. An allowance for possible uncollectible water/sewer accounts was not considered necessary.

**Interfund Activity**

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

**Capital Assets**

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

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

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	10-45 years

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

**Deferred Inflows and Outflows of Financial Resources**

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

*Baybrook Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*June 30, 2018*

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

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

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

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

**Net Position – Governmental Activities**

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

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

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

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of operating reserves paid to Gulf Coast Waste Disposal Authority for the Blackhawk Regional Wastewater Treatment Facility.

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, property taxes levied for debt service in the Debt Service Fund and sales tax rebates in the Special Revenue Fund.

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

*Baybrook Municipal Utility District No. 1*  
*Notes to Basic Financial Statements*  
*June 30, 2018*

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District's assigned fund balance consists of amounts assigned for certain land acquisitions and capital improvement projects.

Unassigned - all other spendable amounts in the General Fund.

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

**Use of Estimates**

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

***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 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		\$ 21,365,568
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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	\$ 48,955,871	
Less accumulated depreciation	<u>(8,177,829)</u>	
Change due to capital assets		40,778,042

The deferred difference on refunding bonds is recorded as a deferred outflow in the government wide statements, but is not a financial resource in the fund statements.		521,311
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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	(28,897,249)	
Interest payable on bonds	<u>(157,969)</u>	
Change due to long-term debt		(29,055,218)

Property taxes receivable and related penalties and interest and sales tax rebates that have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

Deferred sales taxes	315,602	
Property taxes receivable	36,127	
Penalty and interest receivable	<u>17,930</u>	
Change due to property taxes		369,659

Total net position - governmental activities		<u><u>\$ 33,979,362</u></u>
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***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 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 \$ 2,749,957

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 and sales tax revenues. 45,215

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

Capital outlays	\$ 1,262,687	
Depreciation expense	(718,767)	
		543,920

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

Principal payments	1,715,000	
Interest expense accrual	(52,513)	
		1,662,487

During the current fiscal year, the District corrected the recording of settlement proceeds received in a prior fiscal year, which resulted in an increase in capital assets at the government-wide level. This was not reported in the funds because financial resources were not acquired or consumed. 297,281

Change in net position of governmental activities	\$ 5,298,860
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### **Note 3 – Deposits and Investments**

#### **Deposit Custodial Credit Risk**

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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.

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.

**Baybrook Municipal Utility District No. 1**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Investments (continued)**

As of June 30, 2018, the District’s investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
Certificates of deposit	General	\$ 8,235,000			
	Debt Service	1,470,000			
	Special Revenue	2,450,000			
		<u>12,155,000</u>	59.16%	N/A	N/A
Texas CLASS	General	6,171,556			
	Debt Service	182,929			
	Capital Projects	46,366			
	Special Revenue	1,991,136			
		<u>8,391,987</u>	40.84%	AAAm	50 days
Total		<u>\$ 20,546,987</u>	<u>100.00%</u>		

The District’s investments in certificates of deposit are reported at cost.

**Texas CLASS**

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and Wells Fargo Bank as the custodian.

The District’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

**Baybrook Municipal Utility District No. 1**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**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 June 30, 2018, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 48,227	Maintenance tax collections not remitted as of year end

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

A summary of internal transfers for the current fiscal year is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 500,000	Sales tax rebates as required by bond resolutions

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended June 30, 2018, is as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Ending Balances</u>
Capital assets not being depreciated			
Land and improvements	\$ 16,362,468	\$ 1,382,709	\$ 17,745,177
Capital assets being depreciated			
Infrastructure	31,033,434	177,260	31,210,694
Less accumulated depreciation	<u>(7,459,062)</u>	<u>(718,767)</u>	<u>(8,177,829)</u>
Subtotal depreciable capital assets, net	<u>23,574,372</u>	<u>(541,507)</u>	<u>23,032,865</u>
Capital assets, net	<u>\$ 39,936,840</u>	<u>\$ 841,202</u>	<u>\$ 40,778,042</u>

Depreciation expense for the current year was \$718,767.



***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

**Note 6 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 29,245,000
Unamortized discounts	(347,751)
	<u>\$ 28,897,249</u>
Due within one year	<u>\$ 1,775,000</u>

The District's bonds payable at June 30, 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
2008	\$ 200,000	\$ 8,830,000	4.875% - 5.80%	May 1, 2009/2020	November 1, May 1	May 1, 2017
2011 Refunding	1,275,000	4,455,000	2.97%	May 1, 2012/2020	November 1, May 1	May 1, 2019
2011	3,125,000	3,650,000	3.75% - 5.10%	May 1, 2013/2035	November 1, May 1	May 1, 2019
2014 Refunding	3,750,000	5,225,000	2.17%	May 1, 2013/2023	November 1, May 1	May 1, 2018
2015	12,880,000	13,560,000	2.0% - 4.125%	May 1, 2017/2040	November 1, May 1	May 1, 2024
2016 Refunding	8,015,000	8,310,000	2.663% - 3.298%	May 1, 2016/2030	November 1, May 1	May 1, 2024
	<u>\$ 29,245,000</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 June 30, 2018, the District had authorized but unissued bonds in the amount of \$18,275,000 for water, sewer and drainage facilities and for refunding such bonds.

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

Bonds payable, beginning of year	\$ 30,960,000
Bonds retired	(1,715,000)
Bonds payable, end of year	<u>\$ 29,245,000</u>

***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

**Note 6 – Long-Term Debt (continued)**

As of June 30, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 1,775,000	\$ 947,816	\$ 2,722,816
2020	1,840,000	899,442	2,739,442
2021	1,935,000	849,126	2,784,126
2022	1,635,000	802,786	2,437,786
2023	1,685,000	761,702	2,446,702
2024	1,660,000	718,147	2,378,147
2025	1,655,000	670,161	2,325,161
2026	1,650,000	652,777	2,302,777
2027	1,670,000	596,996	2,266,996
2028	1,690,000	539,822	2,229,822
2029	1,705,000	481,105	2,186,105
2030	1,720,000	421,042	2,141,042
2031	825,000	359,580	1,184,580
2032	870,000	327,105	1,197,105
2033	910,000	291,240	1,201,240
2034	955,000	252,035	1,207,035
2035	1,005,000	210,865	1,215,865
2036	745,000	167,475	912,475
2037	775,000	136,744	911,744
2038	810,000	104,775	914,775
2039	845,000	71,362	916,362
2040	885,000	36,506	921,506
	<u>\$ 29,245,000</u>	<u>\$ 10,298,609</u>	<u>\$ 39,543,609</u>

**Note 7 – Property Taxes**

On February 5, 2005, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.00 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. 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.

***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

**Note 7 – 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 \$1.11 per \$100 of assessed value, of which \$0.54 was allocated to maintenance and operations and \$0.57 was allocated to debt service. The resulting tax levy was \$3,677,945 on the adjusted taxable value of \$331,346,449.

Net property taxes receivable, at June 30, 2018, consisted of the following:

Current year taxes receivable	\$ 8,046
Prior years taxes receivable	42,623
Less allowance for uncollectible accounts	<u>(14,542)</u>
	36,127
Penalty and interest receivable	<u>17,930</u>
Net property taxes receivable	<u><u>\$ 54,057</u></u>

**Note 8 – Strategic Partnership Agreement**

Effective November 2, 2000, the District and the City of Houston (the “City”) entered into a Strategic Partnership Agreement (the “Agreement”) under which the City annexed the District for the limited purposes of applying the City's Planning, Zoning, Health and Safety Ordinance with the District. The City provides fire protection, fire suppression and emergency services to the District. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services described in the Agreement, the City agreed to remit one-half of all retail sales tax collected from retailers located in the District's boundaries. The City agreed that it will not annex the District for full purposes until the District's water, wastewater, drainage and road facilities have been 90 percent developed or 30 years, whichever comes first. Under the Agreement with the City, these revenues may be used for any lawful purpose.

During the current year, the District recorded revenues of \$1,859,303 related to the Agreement; \$500,000 of this amount is to be used annually by the Board of Directors for payments of debt service on certain debt containing a sales tax revenue pledge. The District also recorded \$441,784 in related receivables and \$157,801 in deferred inflows of financial resources for receivables that do not meet the revenue recognition criteria because they were not collected within sixty days of fiscal year end.

Due to the Agreement with the City, the District has become part of the Metropolitan Transit Authority of Harris County, Texas (Metro). Effective November 2, 2000, the District and Metro entered into a Congestion Mitigation/Traffic Management Agreement under which the District will be responsible for the construction, acquisition, improvement and financing of transportation projects within the boundaries of the District. The term of the Agreement is for 30 years from the effective date or until annexation or termination.

***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

**Note 8 – Strategic Partnership Agreement (continued)**

As consideration for the services provided by the District under the Agreement, Metro has agreed to remit one-half of all retail sales tax collected from retailers located in the District's boundaries for use on transportation projects or to pay the debt service on debt issued by the District for transportation projects. The Agreement will remain in force until the City executes full-purpose annexation of the District.

During the current year, the District recorded revenues of \$1,859,303 in its Metro Special Revenue Fund. The District also recorded \$441,784 in related receivables and \$157,801 in deferred inflows of financial resources for receivables that do not meet the revenue recognition criteria because they were not collected within sixty days of fiscal year end.

**Note 9 – Water Supply Contract**

The District has entered into a cost-sharing water project contract with the City dated July 24, 1989, which was amended and restated in 2001 and 2006. The contract is perpetual unless limited by law. The City has agreed to supply up to 1,800,000 gallons of surface water per day to the District. Operating and maintenance costs are shared pro rata based on gallons of water delivered to the District. Construction costs are shared pro rata based on capacity acquired. The District recorded \$92,999 for purchased water during the current year in accordance with this contract.

**Note 10 – Wastewater Treatment Contract**

Effective November 1, 1986, Coventry Development Corporation entered into a 40-year contract with Gulf Coast Waste Disposal Authority for 1,025,000 gallons per day (gpd) of sewage treatment capacity at the Blackhawk Regional Wastewater Treatment Plant (the "Plant"), which was assigned to the District in July 1990. The District purchased 11.08 percent of the Plant's capacity. The District recorded \$116,362 for purchased sewer services during the current year in accordance with this contract.

***Baybrook Municipal Utility District No. 1***  
***Notes to Basic Financial Statements***  
***June 30, 2018***

**Note 10 – Wastewater Treatment Contract (continued)**

The following table represents condensed audited financial information of the Plant as of and for the year ended December 31, 2017:

Total current assets	\$ 2,343,270
Total noncurrent assets	11,617,556
Total assets	<u>13,960,826</u>
Total current liabilities	950,188
Total noncurrent liabilities	735,188
Total liabilities	<u>1,685,376</u>
Net position	
Invested in capital assets	11,617,556
Restricted for contingency reserve	670,778
Unrestricted	(12,884)
Total net position	<u>\$ 12,275,450</u>
Operating revenues	\$ 2,687,922
Operating expenses	<u>(3,049,242)</u>
Operating loss	(361,320)
Net non-operating revenues/(expenses)	3,253
Capital contributions	<u>3,335,668</u>
Changes in net position	<u>\$ 2,977,601</u>

**Note 11 – Land Annexation**

On June 26, 2018, the District annexed 21.071 acres of Tract E and 1.757 acres of Tract F from Northfield Realty, Inc and Southbrook Corporation, for a total combined annexation of 22.828 acres. The land is to be purposed for commercial development which could be advantageous for the District. The District’s waterworks, sanitary sewer and drainage systems and other improvements are or will be sufficient to supply the added land without injuring the land already within the District.

**Note 12 – Risk Management**

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

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## **Required Supplementary Information**

**Baybrook Municipal Utility District No. 1**  
**Required Supplementary Information - Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water service	\$ 246,156	\$ 250,351	\$ 4,195
Sewer service	195,581	189,655	(5,926)
Property taxes	1,080,138	1,744,667	664,529
Penalties and interest	1,500	3,329	1,829
Tap connection and inspection	65,000	17,835	(47,165)
Sales tax rebates	1,300,000	1,859,303	559,303
Miscellaneous	23,238	14,736	(8,502)
Investment earnings	100,000	174,091	74,091
<b>Total Revenues</b>	<b>3,011,613</b>	<b>4,253,967</b>	<b>1,242,354</b>
<b>Expenditures</b>			
Current service operations			
Purchased services	203,920	209,361	(5,441)
Professional fees	306,000	439,892	(133,892)
Contracted services	99,750	90,612	9,138
Repairs and maintenance	410,027	427,990	(17,963)
Utilities	32,000	43,721	(11,721)
Administrative	61,753	51,750	10,003
Other	6,415	46,874	(40,459)
Intergovernmental			
Capital contribution		7,683	(7,683)
Capital outlay	1,162,312	1,258,293	(95,981)
<b>Total Expenditures</b>	<b>2,282,177</b>	<b>2,576,176</b>	<b>(293,999)</b>
<b>Revenues Over Expenditures</b>	<b>729,436</b>	<b>1,677,791</b>	<b>948,355</b>
<b>Other Financing Uses</b>			
Internal transfers	(500,000)	(500,000)	
<b>Other Items</b>			
Settlement proceeds		130,982	130,982
<b>Net Change in Fund Balance</b>	<b>229,436</b>	<b>1,308,773</b>	<b>1,079,337</b>
<b>Fund Balance</b>			
Beginning of the year	13,573,020	13,573,020	
<b>End of the year</b>	<b>\$ 13,802,456</b>	<b>\$ 14,881,793</b>	<b>\$ 1,079,337</b>



***Baybrook Municipal Utility District No. 1  
 Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund  
 For the Year Ended June 30, 2018***

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Sales tax rebates	\$ 1,300,000	\$ 1,859,303	\$ 559,303
Investment earnings	15,090	42,209	27,119
<b>Total Revenues</b>	<b>1,315,090</b>	<b>1,901,512</b>	<b>586,422</b>
<b>Expenditures</b>			
Current service operations			
Professional fees	17,500	11,208	6,292
Contracted services	2,000	1,938	62
Repairs and maintenance	75,000	27,196	47,804
Other	100	94	6
Capital outlay		3,796	(3,796)
<b>Total Expenditures</b>	<b>94,600</b>	<b>44,232</b>	<b>50,368</b>
<b>Revenues Over Expenditures</b>	<b>1,220,490</b>	<b>1,857,280</b>	<b>636,790</b>
<b>Fund Balance</b>			
Beginning of the year	2,887,433	2,887,433	
<b>End of the year</b>	<b>\$ 4,107,923</b>	<b>\$ 4,744,713</b>	<b>\$ 636,790</b>

*Baybrook Municipal Utility District No. 1*  
*Notes to Required Supplementary Information*  
*June 30, 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**

**Baybrook Municipal Utility District No. 1**  
**TSI-1. Services and Rates**  
**June 30, 2018**

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

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

2. Retail Service Providers

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

a. Retail Rates for a 2" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate (Y / N)</u>	<u>Rate per 1,000 Gallons Over Minimum Usage</u>	<u>Usage Levels</u>	
Water:	\$ 13.00	-0-	N	\$ 4.15	1	to No limit
Wastewater:	\$ 10.46	-0-	N	\$ -	1	to 2,000
				\$ 5.75	2,001	to No limit

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage:

Water \$ 54.50 Wastewater \$ 56.46

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC'S</u>
Unmetered			x 1.0	
less than 3/4"			x 1.0	
1"	21	21	x 2.5	53
1.5"	10	10	x 5.0	50
2"	38	35	x 8.0	280
3"			x 15.0	
4"			x 25.0	
6"	2	2	x 50.0	100
8"	6	6	x 80.0	480
10"	1	1	x 115.0	115
Total Water	78	75		1,078
Total Wastewater	46	44	x 1.0	44

See accompanying auditor's report.

**Baybrook Municipal Utility District No. 1**  
**TSI-1. Services and Rates**  
**June 30, 2018**

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

*Gallons purchased from the City:	<u>72,225,000</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>59,591,000</u>	(Gallons billed / Gallons pumped) <u>82.51%</u>

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

Does the District have Debt Service standby fees? Yes  No

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

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

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

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

Is the District located entirely within one county? Yes  No

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

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

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

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

Entirely  Partly  Not at all

ETJs in which the District is located: City of Houston

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

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

\* Purchased from the City of Houston  
 See accompanying auditors' report.

***Baybrook Municipal Utility District No. 1  
TSI-2 General Fund Expenditures  
For the Year Ended June 30, 2018***

Purchased services		\$ 209,361
Professional fees		
Legal		204,239
Audit		17,500
Engineering		218,153
		<u>439,892</u>
Contracted services		
Bookkeeping		51,875
Operator		29,837
Tap connection and inspection		8,900
		<u>90,612</u>
Repairs and maintenance		<u>427,990</u>
Utilities		<u>43,721</u>
Administrative		
Directors fees		12,111
Printing and office supplies		3,903
Insurance		26,734
Other		9,002
		<u>51,750</u>
Other		<u>46,874</u>
Capital outlay		<u>1,258,293</u>
Intergovernmental		
Capital contributions		<u>7,683</u>
Total expenditures		<u><u>\$ 2,576,176</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	224,994 kWh	\$43,721
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

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**Baybrook Municipal Utility District No. 1**  
**TSI-3. Investments**  
**June 30, 2018**

1 of 2

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
<b>General</b>					
Certificate of deposit	1002829232	1.00%	8/23/2018	\$ 245,000	\$ 2,088
Certificate of deposit	1003047700	1.00%	10/30/2018	500,000	3,329
Certificate of deposit	6741640684	0.70%	9/19/2018	500,000	2,723
Certificate of deposit	6757883420	1.30%	3/26/2019	1,000,000	3,419
Certificate of deposit	6754503104	1.30%	11/21/2018	500,000	3,953
Certificate of deposit	6755323339	1.30%	12/26/2018	1,000,000	6,625
Certificate of deposit	6755914515	1.30%	1/18/2019	1,000,000	5,805
Certificate of deposit	6755971209	1.30%	1/22/2019	1,000,000	5,663
Certificate of deposit	6756942261	1.30%	2/26/2019	1,000,000	4,488
Certificate of deposit	6758740887	1.30%	4/19/2019	1,000,000	2,564
Certificate of deposit	13267	1.10%	7/25/2018	245,000	2,518
Certificate of deposit	6000023439	1.00%	8/2/2018	245,000	2,229
Texas CLASS	01-0568-0001	Variable	N/A	5,074,053	
Texas CLASS	01-0568-0002	Variable	N/A	257,180	
Texas CLASS	01-0568-0003	Variable	N/A	840,323	
				<u>14,406,556</u>	<u>45,404</u>
<b>Debt Service</b>					
Certificate of deposit	66000472	1.25%	10/17/2018	245,000	2,148
Certificate of deposit	6741314825	1.30%	4/11/2019	245,000	698
Certificate of deposit	9009004103	2.00%	4/11/2019	245,000	1,074
Certificate of deposit	314252	1.00%	10/16/2018	245,000	1,725
Certificate of deposit	14498	1.25%	4/11/2019	245,000	671
Certificate of deposit	6000024205	1.30%	4/11/2019	245,000	698
Texas CLASS	01-0568-0006	Variable	N/A	182,929	
				<u>1,652,929</u>	<u>7,014</u>
<b>Capital Projects</b>					
Texas CLASS	01-0568-0004	Variable	N/A	46,366	

See accompanying auditors' report.



*Baybrook Municipal Utility District No. 1*  
*TSI-3. Investments (continued)*  
*June 30, 2018*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
Special Revenue					
Certificate of deposit	83186924	1.12%	7/1/2018	\$ 245,000	\$ 1,376
Certificate of deposit	66000747	1.90%	2/8/2019	245,000	599
Certificate of deposit	6739904348	1.21%	7/2/2018	245,000	1,454
Certificate of deposit	6752053640	1.22%	11/15/2018	245,000	589
Certificate of deposit	6755543541	1.22%	8/3/2018	245,000	1,458
Certificate of deposit	6755543592	1.24%	9/4/2018	245,000	1,481
Certificate of deposit	6755877156	1.22%	8/14/2018	245,000	1,351
Certificate of deposit	9009004291	1.85%	12/7/2018	245,000	981
Certificate of deposit	492835	1.60%	1/7/2019	245,000	848
Certificate of deposit	5677	0.90%	10/20/2018	245,000	775
Texas CLASS	2003603	Variable	N/A	1,991,136	
				4,441,136	10,912
				\$ 20,546,987	\$ 63,330

See accompanying auditors' report.

**Baybrook Municipal Utility District No. 1**  
**TSI-4. Taxes Levied and Receivable**  
**June 30, 2018**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 10,584	\$ 19,774	\$ 30,358	
Adjustments to Prior Year Tax Levy	877	1,604	2,481	
Adjusted Taxes Receivable	11,461	21,378	32,839	
2017 Original Tax Levy	1,722,650	1,818,353	3,541,003	
Adjustments	66,620	70,322	136,942	
Adjusted Tax Levy	1,789,270	1,888,675	3,677,945	
Total to be accounted for	1,800,731	1,910,053	3,710,784	
Tax collections:				
Current year	1,785,356	1,884,543	3,669,899	
Prior years	1,609	3,149	4,758	
Total Collections	1,786,965	1,887,692	3,674,657	
Taxes Receivable, End of Year	\$ 13,766	\$ 22,361	\$ 36,127	
Taxes Receivable, By Years				
2017	\$ 3,914	\$ 4,132	\$ 8,046	
2016	3,769	6,958	10,727	
2015	889	2,765	3,654	
2014 and prior	5,194	8,506	13,700	
Taxes Receivable, End of Year	\$ 13,766	\$ 22,361	\$ 36,127	
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 122,991,845	\$ 109,928,854	\$ 108,381,759	\$ 108,665,521
Improvements	169,000,688	165,567,815	110,840,731	100,792,375
Personal Property	49,179,676	44,530,356	44,238,581	38,988,126
Exemptions	(9,825,760)	(53,725,652)	(8,171,376)	(8,224,097)
Total Property Valuations	\$ 331,346,449	\$ 266,301,373	\$ 255,289,695	\$ 240,221,925
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.54	\$ 0.39	\$ 0.27	\$ 0.335
Debt service tax rates	0.57	0.72	0.84	0.775
Total Tax Rates per \$100 Valuation	\$ 1.11	\$ 1.11	\$ 1.11	\$ 1.110
Adjusted Tax Levy:	\$ 3,677,945	\$ 2,955,945	\$ 2,833,716	\$ 2,666,463
Percentage of Taxes Collected to Taxes Levied **	99.78%	99.86%	99.87%	99.90%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.00 on February 5, 2005

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

See accompanying auditors' report.

*Baybrook Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2008--by Years*  
*June 30, 2018*

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 100,000	\$ 9,750	\$ 109,750
2020	100,000	4,875	104,875
	<u>\$ 200,000</u>	<u>\$ 14,625</u>	<u>\$ 214,625</u>

See accompanying auditors' report.

*Baybrook Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011 Refunding--by Years*  
*June 30, 2018*

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 625,000	\$ 37,868	\$ 662,868
2020	650,000	19,304	669,304
	<u>\$ 1,275,000</u>	<u>\$ 57,172</u>	<u>\$ 1,332,172</u>

See accompanying auditors' report.

*Baybrook Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011--by Years*  
*June 30, 2018*

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 105,000	\$ 155,895	\$ 260,895
2020	115,000	151,275	266,275
2021	120,000	146,100	266,100
2022	130,000	140,400	270,400
2023	135,000	134,030	269,030
2024	145,000	127,280	272,280
2025	155,000	120,030	275,030
2026	165,000	112,280	277,280
2027	175,000	104,030	279,030
2028	190,000	95,280	285,280
2029	200,000	85,780	285,780
2030	210,000	75,780	285,780
2031	225,000	65,280	290,280
2032	240,000	53,805	293,805
2033	255,000	41,565	296,565
2034	270,000	28,560	298,560
2035	290,000	14,790	304,790
	<u>\$ 3,125,000</u>	<u>\$ 1,652,160</u>	<u>\$ 4,777,160</u>

See accompanying auditors' report.

*Baybrook Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2014 Refunding--by Years*  
*June 30, 2018*

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 500,000	\$ 81,375	\$ 581,375
2020	510,000	70,525	580,525
2021	1,230,000	59,458	1,289,458
2022	745,000	32,767	777,767
2023	765,000	16,600	781,600
	<u>\$ 3,750,000</u>	<u>\$ 260,725</u>	<u>\$ 4,010,725</u>

See accompanying auditors' report.

*Baybrook Municipal Utility District No. 1*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2015--by Years*  
*June 30, 2018*

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 360,000	\$ 449,456	\$ 809,456
2020	375,000	442,256	817,256
2021	395,000	434,757	829,757
2022	410,000	425,869	835,869
2023	430,000	416,644	846,644
2024	445,000	405,894	850,894
2025	465,000	393,656	858,656
2026	485,000	380,869	865,869
2027	510,000	366,319	876,319
2028	530,000	350,381	880,381
2029	555,000	333,156	888,156
2030	575,000	314,425	889,425
2031	600,000	294,300	894,300
2032	630,000	273,300	903,300
2033	655,000	249,675	904,675
2034	685,000	223,475	908,475
2035	715,000	196,075	911,075
2036	745,000	167,475	912,475
2037	775,000	136,744	911,744
2038	810,000	104,775	914,775
2039	845,000	71,362	916,362
2040	885,000	36,506	921,506
	<u>\$ 12,880,000</u>	<u>\$ 6,467,369</u>	<u>\$ 19,347,369</u>

See accompanying auditors' report.

**Baybrook Municipal Utility District No. 1**  
**TSI-5. Long-Term Debt Service Requirements**  
**Series 2016 Refunding--by Years**  
**June 30, 2018**

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 85,000	\$ 213,472	\$ 298,472
2020	90,000	211,207	301,207
2021	190,000	208,811	398,811
2022	350,000	203,750	553,750
2023	355,000	194,428	549,428
2024	1,070,000	184,973	1,254,973
2025	1,035,000	156,475	1,191,475
2026	1,000,000	159,628	1,159,628
2027	985,000	126,647	1,111,647
2028	970,000	94,161	1,064,161
2029	950,000	62,169	1,012,169
2030	935,000	30,837	965,837
	<u>\$ 8,015,000</u>	<u>\$ 1,846,558</u>	<u>\$ 9,861,558</u>

See accompanying auditors' report.



**Baybrook Municipal Utility District No. 1**  
**TSI-5. Long-Term Debt Service Requirements**  
**All Bonded Debt Series--by Years**  
**June 30, 2018**

Due During Fiscal Years Ending	Principal Due May 1	Interest Due November 1, May 1	Total
2019	\$ 1,775,000	\$ 947,816	\$ 2,722,816
2020	1,840,000	899,442	2,739,442
2021	1,935,000	849,126	2,784,126
2022	1,635,000	802,786	2,437,786
2023	1,685,000	761,702	2,446,702
2024	1,660,000	718,147	2,378,147
2025	1,655,000	670,161	2,325,161
2026	1,650,000	652,777	2,302,777
2027	1,670,000	596,996	2,266,996
2028	1,690,000	539,822	2,229,822
2029	1,705,000	481,105	2,186,105
2030	1,720,000	421,042	2,141,042
2031	825,000	359,580	1,184,580
2032	870,000	327,105	1,197,105
2033	910,000	291,240	1,201,240
2034	955,000	252,035	1,207,035
2035	1,005,000	210,865	1,215,865
2036	745,000	167,475	912,475
2037	775,000	136,744	911,744
2038	810,000	104,775	914,775
2039	845,000	71,362	916,362
2040	885,000	36,506	921,506
	<u>\$ 29,245,000</u>	<u>\$ 10,298,609</u>	<u>\$ 39,543,609</u>

See accompanying auditors' report.

**Baybrook Municipal Utility District No. 1**  
**TSI-6. Change in Long-Term Bonded Debt**  
**June 30, 2018**

	Bond Issue			
	Series 2008	Series 2011 Refunding	Series 2011	Series 2014 Refunding
Interest rate	4.875% - 5.8%	2.97%	3.75% - 5.10%	2.17%
Dates interest payable	11/1; 5/1	11/1; 5/1	11/1; 5/1	11/1; 5/1
Maturity dates	5/1/09 - 5/1/20	5/1/12 - 5/1/20	5/1/13 - 5/1/35	5/1/15 - 5/1/23
Beginning bonds outstanding	\$ 300,000	\$ 1,875,000	\$ 3,225,000	\$ 4,235,000
Bonds retired	(100,000)	(600,000)	(100,000)	(485,000)
Ending bonds outstanding	<u>\$ 200,000</u>	<u>\$ 1,275,000</u>	<u>\$ 3,125,000</u>	<u>\$ 3,750,000</u>
Interest paid during fiscal year	<u>\$ 14,625</u>	<u>\$ 55,687</u>	<u>\$ 160,145</u>	<u>\$ 91,900</u>
Paying agent's name and city				
Series 2008, 2011 Refunding, 2011, 2014 Refunding	<u>The Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>			
Series 2015	<u>Amegy Bank, N.A., Houston, Texas</u>			
Series 2016 Refunding	<u>Regions Equipment Finance Corporation, Birmingham, Alabama</u>			
Bond Authority:	<u>Tax Bonds</u>			
Amount Authorized by Voters	<u>\$ 64,850,000</u>			
Amount Issued	<u>(46,575,000)</u>			
Remaining To Be Issued	<u>\$ 18,275,000</u>			

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

Debt Service Fund cash and investments balances as of June 30, 2018: \$ 1,747,939

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,797,437

See accompanying auditors' report.

Bond Issue		
Series 2015	Series 2016 Refunding	Totals
2.0% - 4.125% 11/1; 5/1 5/1/17 - 5/1/40	2.663% - 3.298% 11/1; 5/1 5/1/16 - 5/1/30	
\$ 13,225,000	\$ 8,100,000	\$ 30,960,000
(345,000)	(85,000)	(1,715,000)
<u>\$ 12,880,000</u>	<u>\$ 8,015,000</u>	<u>\$ 29,245,000</u>
<u>\$ 456,356</u>	<u>\$ 215,736</u>	<u>\$ 994,449</u>

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

	Amounts				
	2018	2017	2016	2015	2014
<b>Revenues</b>					
Water service	\$ 250,351	\$ 260,566	\$ 244,342	\$ 193,541	\$ 176,787
Sewer service	189,655	204,720	170,655	152,080	131,736
Property taxes	1,744,667	1,099,749	687,653	819,948	779,063
Penalties and interest	3,329	722	1,310	8,167	271
Tap connection and inspection	17,835	29,425	23,197	139,271	184,276
Sales tax rebates	1,859,303	1,389,081	1,196,510	1,411,995	1,374,286
Miscellaneous	14,736	12,589	2,443	961	25
Investment earnings	174,091	100,956	25,991	15,889	14,558
<b>Total Revenues</b>	<b>4,253,967</b>	<b>3,097,808</b>	<b>2,352,101</b>	<b>2,741,852</b>	<b>2,661,002</b>
<b>Expenditures</b>					
<b>Current service operations</b>					
Purchased services	209,361	210,440	167,202	144,367	174,448
Professional fees	439,892	269,507	298,816	351,813	216,082
Contracted services	90,612	79,720	72,151	108,760	122,921
Repairs and maintenance	427,990	330,000	358,922	293,648	213,781
Utilities	43,721	37,220	40,052	32,676	27,019
Administrative	51,750	59,828	50,792	59,771	47,649
Other	46,874	31,216	9,221	29,602	18,949
Capital outlay	1,258,293	1,438,473	370,061	1,529,869	2,986,872
Intergovernmental					
Capital contribution	7,683	36,248	68,371		
<b>Total Expenditures</b>	<b>2,576,176</b>	<b>2,492,652</b>	<b>1,435,588</b>	<b>2,550,506</b>	<b>3,807,721</b>
<b>Revenues Over (Under)</b>					
Expenditures	<b>\$ 1,677,791</b>	<b>\$ 605,156</b>	<b>\$ 916,513</b>	<b>\$ 191,346</b>	<b>\$ (1,146,719)</b>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
7%	8%	10%	7%	7%
4%	7%	7%	6%	5%
41%	36%	29%	30%	28%
*	*	*	*	*
*	1%	1%	5%	7%
44%	45%	52%	51%	52%
*	*	*	*	*
4%	3%	1%	1%	1%
100%	100%	100%	100%	100%
5%	7%	7%	5%	7%
10%	9%	13%	13%	8%
2%	3%	3%	4%	5%
10%	11%	15%	11%	8%
1%	1%	2%	1%	1%
1%	2%	2%	2%	2%
1%	1%	*	1%	1%
30%	46%	16%	56%	112%
*	1%	3%		
60%	81%	61%	93%	144%
40%	19%	39%	7%	(44%)

**Baybrook Municipal Utility District No. 1**

**TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund**

**For the Last Five Fiscal Years**

	Amounts				
	2018	2017	2016	2015	2014
Revenues					
Property taxes	\$ 1,809,600	\$ 2,018,582	\$ 2,142,958	\$ 1,754,893	\$ 1,350,331
Penalties and interest	2,269	11,855	4,364	4,170	160
Miscellaneous	930	1,884	2,452	1,131	64
Investment earnings	25,314	17,826	7,066	5,921	5,048
Total Revenues	<u>1,838,113</u>	<u>2,050,147</u>	<u>2,156,840</u>	<u>1,766,115</u>	<u>1,355,603</u>
Expenditures					
Tax collection services	42,239	38,834	39,448	37,622	33,036
Debt service					
Principal	1,715,000	1,665,000	1,335,000	1,175,000	1,080,000
Interest and fees	995,599	1,042,178	814,554	833,499	943,851
Early extinguishment of debt				10,000	
Debt issuance costs			183,680	122,911	
Total Expenditures	<u>2,752,838</u>	<u>2,746,012</u>	<u>2,372,682</u>	<u>2,179,032</u>	<u>2,056,887</u>
Revenues Under Expenditures	<u>\$ (914,725)</u>	<u>\$ (695,865)</u>	<u>\$ (215,842)</u>	<u>\$ (412,917)</u>	<u>\$ (701,284)</u>
Total Active Retail Water Connections	<u>75</u>	<u>72</u>	<u>63</u>	<u>63</u>	<u>51</u>
Total Active Retail Wastewater Connections	<u>44</u>	<u>37</u>	<u>31</u>	<u>35</u>	<u>31</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014
99%	98%	100%	100%	100%
*	1%	*	*	*
*	*	*	*	*
1%	1%	*	*	*
100%	100%	100%	100%	100%
2%	2%	2%	2%	2%
93%	81%	62%	67%	80%
54%	51%	38%	47%	70%
			1%	
		9%	7%	
149%	134%	111%	124%	152%
(49%)	(34%)	(11%)	(24%)	(52%)

**Baybrook Municipal Utility District No. 1**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended June 30, 2018**

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027  
District Business Telephone Number: 713-860-6400  
Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): February 27, 2018  
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Mark Hardy	5/16 to 5/20	\$ 1,950	\$ 388	President
Corey L. Kelly	5/16 to 5/20	4,350	1,046	Vice President
David Martin	5/18 to 5/22	1,050		Secretary
Burdette Keeland	5/16 to 5/20	2,250	1,838	Assistant Secretary
Chris Clark	5/18 to 5/22	1,650		Assistant Vice President
<b>Consultants</b>				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	7/2003	\$ 211,179		Attorney
Si Environmental LLC	3/2018	74,597		Operator
Municipal Accounts & Consulting, L.P.	12/2013	57,700		Bookkeeper
Assessments of the Southwest	5/2007	13,200		Tax Collector
Harris County Appraisal District	Legislation	26,115		Property Valuation
Perdue Brandon, Fielder, Collins & Mott LLP	3/1996	1,096		Delinquent Tax Attorney
LJA Engineering, Inc	6/2017	220,077		Engineer
McGrath & Co., PLLC	6/2013	17,500		Auditor
Robert W. Baird & Co.	2/2015			Financial Advisor
TNG Utility Corp.	6/2012	131,984		Former Operator
Costello, Inc	3/2009	12,273		Former Engineer

\* *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