

OFFICIAL STATEMENT DATED MAY 9, 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 IS NOT INCLUDED IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS.

The Authority has not designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX EXEMPTION – NOT Qualified Tax-Exempt Obligations.”

NEW ISSUE – Book Entry Only

Moody's..... “Aa3”
See “MUNICIPAL BOND RATING.”

\$24,500,000

CLEAR LAKE CITY WATER AUTHORITY

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

WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE BONDS

SERIES 2019

Interest accrues from: June 1, 2019

Due: March 1, as shown on inside cover

The \$24,500,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2019 (the “Bonds”), are obligations of Clear Lake City Water Authority (the “Authority”) and are not obligations of the State of Texas; Harris County, Texas; Houston County, Texas; the Cities of Houston, Pasadena, La Porte, Taylor Lake Village and Webster, Texas; or any entity other than the Authority. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; Houston County, Texas; the Cities of Houston, Pasadena, La Porte, Taylor Lake Village and Webster, Texas; nor any entity other than the Authority is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to 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 ownership of 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 Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”), or any successor Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”

Principal of the Bonds is payable to the registered owner(s) of the Bonds at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds accrues from June 1, 2019, and is payable September 1, 2019, and each March 1 and September 1 thereafter until maturity or prior redemption to the person in whose name the Bonds are registered as of the 15th calendar day of the month next preceding each interest payment date. The Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

See “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” and inside cover.

The Bonds constitute the thirty-ninth (39th) series of waterworks and sewer system combination unlimited tax and revenue bonds issued by the Authority. At various elections, voters of the Authority have previously authorized the Authority’s issuance of a total of \$299,390,400 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds, and, following issuance of the Bonds, \$33,550,400 principal amount of unlimited tax and revenue bonds will remain authorized but unissued. See “THE BONDS – Authority for Issuance.”

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the Authority, and will further be payable from and secured by a pledge of the net revenues, if any, of the Authority’s waterworks and sanitary sewer facilities. The Authority’s waterworks and sanitary sewer facilities are not expected to produce sufficient net revenues to make any significant contributions to future debt service payments.

The Bonds are offered when, as, and if issued by the Authority and accepted by the initial purchaser of the Bonds (the “Underwriter”), subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel. The Bonds in definitive form are expected to be available for delivery through the facilities of DTC on or about June 6, 2019.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Maturity March 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity March 1	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$900,000	4.000%	1.750%	184576 7U4	2029 (c)	\$1,265,000	2.250%	2.500%	184576 8D1
2021	935,000	4.000%	1.800%	184576 7V2	2030 (c)	1,310,000	2.500%	2.650%	184576 8E9
2022	970,000	4.000%	1.850%	184576 7W0	2031 (c)	1,360,000	3.000%	2.750%	184576 8F6
2023	1,010,000	4.000%	1.880%	184576 7X8	2032 (c)	1,415,000	3.000%	2.850%	184576 8G4
2024	1,045,000	4.000%	1.900%	184576 7Y6	2033 (c)	1,470,000	3.000%	2.900%	184576 8H2
2025 (c)	1,085,000	3.000%	2.000%	184576 7Z3	****	****	****	****	****
2026 (c)	1,130,000	2.000%	2.100%	184576 8A7	2036 (c)	1,640,000	3.000%	3.030%	184576 8L3
2027 (c)	1,170,000	2.000%	2.250%	184576 8B5	2037 (c)	1,705,000	3.000%	3.060%	184576 8M1
2028 (c)	1,215,000	2.000%	2.350%	184576 8C3	2038 (c)	1,770,000	3.000%	3.100%	184576 8N9

\$3,105,000 Term Bonds Due March 1, 2035 (c) (d), Interest Rate: 3.000% (Price: \$100.00) (a), CUSIP No. 184576 8K5 (b)

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- (a) The initial reoffering yield has been provided by the Underwriter and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from June 1, 2019, is to be added to the price.
- (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 Bonds maturing on or after March 1, 2025, are subject to redemption prior to maturity at the option of the Authority, as a whole or from time to time in part, on March 1, 2024, or any date thereafter at a price equal to the par value thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."
- (d) Subject to mandatory redemption as provided herein under "THE BONDS – Mandatory Redemption."

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 Authority.

This Official Statement does not constitute, and is not authorized by the Authority for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Robert W. Baird & Co. Incorporated, 1331 Lamar Street, Suite 1360, Houston, Texas 77010, financial advisor to the Authority.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this offering document.

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the Authority has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds, bearing the interest rates on the inside cover page of this Official Statement, at a price of 100.226861% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.866867%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

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

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

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The Authority 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 in such other jurisdictions.

MUNICIPAL BOND RATING

Moody's Investors Service, Inc. ("Moody's") has assigned a credit rating of "Aa3" to the Bonds. An explanation of the rating 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 the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if, in its judgment, circumstances so warrant. Any such revisions or withdrawal of such rating may have an adverse effect on the market price of the Bonds. The Authority is not aware of any rating assigned to the Bonds other than the rating of Moody's.

OFFICIAL STATEMENT SUMMARY

The following 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 BONDS

- The Issuer Clear Lake City Water Authority (the “Authority”), a political subdivision of the State of Texas, is located almost entirely within Harris County, Texas, in the Clear Lake area, approximately 20 miles southeast of central business district of the City of Houston, Texas, and contains approximately 15,644 acres. The Authority lies within the city limits or the extraterritorial jurisdiction of the cities of Houston, Pasadena, La Porte, Taylor Lake Village, and Webster, Texas. In addition, a small tract of land within the Authority is located in Houston County, Texas. See “THE AUTHORITY.”
- The Issue The Authority is issuing \$24,500,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2019 (the “Bonds”). Interest accrues from June 1, 2019, and is payable September 1, 2019, and on each March 1 and September 1 thereafter until maturity. The Bonds mature in each of the years and in the principal amounts as set forth on the inside cover page hereof. See “THE BONDS.”
- Redemption Provisions The Bonds that mature on or after March 1, 2025, are subject to redemption prior to maturity at the option of the Authority, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Optional Redemption.” The Bonds that mature on March 1, 2035, are term bonds that are also subject to the mandatory redemption provisions set out herein under “THE BONDS – Mandatory Redemption.”
- Authority for Issuance..... The Bonds are issued by the Authority pursuant to the terms and conditions of an order approved by the Board of Directors of the Authority authorizing the issuance of the Bonds (the “Bond Order”); Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; an election held within the Authority on November 8, 2016; and an order issued by the Texas Commission on Environmental Quality (the “TCEQ”).
- Source of Payment Principal of and interest on the Bonds are payable from a combination of the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the Authority and from a pledge of net revenues of the Authority’s waterworks and sanitary sewer facilities (the “Net Revenues”), if any, derived from operation of the waterworks and sanitary sewer facilities. It is not expected that the Net Revenues will ever be sufficient to materially contribute to debt service payments on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to residents and users in the Authority. See “THE BONDS – Source of Payment.”
- Use of Proceeds A portion of the proceeds of the Bonds will be used to pay for costs associated with the following projects: (i) rehabilitation of the Authority’s water distribution system; (ii) rehabilitation of the

Authority’s wastewater treatment plant, wastewater system, and lift station; (iii) flood mitigation and drainage system improvements; (iv) construction of a detention pond serving Exploration Green, Phase 3B; and (v) construction of a detention pond serving Exploration Green, Phase 5. Proceeds from the sale of the Bonds will also be used to pay for contingencies and engineering costs on the above projects and to pay costs of issuance of the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds.”

- Outstanding BondsThe Authority has previously issued thirty-eight (38) series of waterworks and sewer system combination unlimited tax and revenue bonds, fifteen (15) series of waterworks and sewer system combination unlimited tax and revenue refunding bonds (including the Authority’s \$6,120,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2019, which were issued on May 9, 2019), and one (1) series of subordinate lien revenue bonds. Of the Authority’s previously issued bonds, as of May 10, 2019, \$86,500,000 principal amount is outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”
- Payment Record.....The Authority has not defaulted on the timely payment of principal and interest on its bonded indebtedness.
- Not Qualified Tax-Exempt ObligationsThe Authority has not designated the Bonds as “qualified tax-exempt obligations.”
- Municipal Bond Insurance and Rating.....Moody’s Investors Service, Inc. has assigned a rating of “Aa3” to the Bonds. See “MUNICIPAL BOND RATING” above.
- Bond CounselSanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.
- Financial AdvisorRobert W. Baird & Co. Incorporated, Houston, Texas.
- Disclosure CounselMcCall, Parkhurst & Horton L.L.P., Houston, Texas.
- Paying Agent/Registrar.....The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

THE AUTHORITY

- Creation and AuthorityThe Authority was created by House Bill 1003, Chapter 101, 58th Legislature of Texas, Regular Session, on May 6, 1963 (compiled as 8280-280, Texas Revised Civil Statutes and recodified as Chapter 9029, Texas Special Districts Local Laws Code). The Authority was created to provide, operate, and maintain waterworks systems, sanitary sewer systems, storm sewer systems, and drainage facilities to serve the land within its boundaries. The Authority operates under the authority of the Texas Constitution, Chapter 9029 of the Texas Special Districts Local Laws Code, and Chapters 49 and 51 of the Texas Water Code, as amended.
- AnnexationApproximately 99% of the area within the Authority currently lies within the corporate boundaries of one or more cities, much of it as a result of annexations by the cities of Houston and Pasadena. Annexation or incorporation of the remaining area within the Authority by one or more cities could lead to the dissolution of the Authority, subject to certain provisions of Section 43.076 of the Texas Local Government Code being satisfied. Under Section 43.076, dissolution must be accompanied by agreement among the

Authority and all of the cities in which the Authority lies, which agreement may specify any agreed method of allocation of assets and liabilities. See "THE BONDS – Effect of Annexation or Incorporation and Dissolution," "– Consolidation" and "AUTHORITY DEBT – Direct and Estimated Overlapping Debt Statement."

Development.....Since 1963, development has occurred on approximately 12,569 acres within the Authority for residential, commercial, and public recreational uses as Clear Lake City. In addition, 1,428 acres within the Authority have been developed for industrial purposes as the Bayport Industrial Project. As of January 1, 2019, there were approximately 16,677 completed homes; 47 completed multi-family complexes comprising 10,147 apartments, townhomes, duplexes, and condominium units; and 3,122 acres of commercial and industrial parks. Approximately 409 acres remain to be developed within the Authority. See "THE BONDS – Issuance of Additional Debt," "THE AUTHORITY," and "STATUS OF DEVELOPMENT AND ECONOMIC ACTIVITY IN AND AROUND THE AUTHORITY."

Hurricane Harvey.....The Authority is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. On August 25, 2017, Hurricane Harvey made landfall, and, during the subsequent days, the Authority experienced high levels of rainfall, over forty inches in total. Damage to residential properties within the Authority and to the Authority's water supply, wastewater, and drainage systems was minimal: approximately 175 homes within the Authority, representing less than 1% of the Authority's total connections, incurred water damage; one of the Authority's thirty lift stations was overcome by high water and an auxiliary pump was placed at the site to return the station to service; and a component of the ultraviolet disinfection system at the Authority's wastewater treatment plant incurred minor damage, but, due to redundancy, the plant experienced no interruption to its disinfection capabilities or service. See "INVESTMENT CONSIDERATIONS – Recent Extreme Weather Events," "– Potential Impact of Natural Disasters," and "– Harris County and City of Houston Floodplain Regulations."

INVESTMENT CONSIDERATIONS

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.....	\$ 5,696,844,514 (a) (b)
Direct Debt:	
The Outstanding Bonds (as of May 10, 2019).....	\$ 86,500,000
The Bonds	<u>\$ 24,500,000</u>
Total.....	\$ 111,000,000
Estimated Overlapping Debt.....	<u>\$ 423,864,694 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 534,864,694 (c)
Direct Debt Ratio:	
As a Percentage of 2018 Taxable Assessed Valuation.....	1.95 %
Direct and Estimated Overlapping Debt Ratio:	
As a Percentage of 2018 Taxable Assessed Valuation.....	9.39 %
Debt Service Fund Balance (as of February 28, 2019)	\$ 9,525,986 (d)
General Operating Fund Balance (as of February 28, 2019)	\$ 15,844,277
2018 Tax Rate	
Debt Service	\$0.22
Maintenance & Operation	<u>\$0.05</u>
Total.....	\$0.27
Average Annual Debt Service Requirement (2020–2038)	\$7,824,694 (e)
Maximum Annual Debt Service Requirement (2021).....	\$10,034,063 (e)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2020–2038)	
Based on 2018 Taxable Assessed Valuation at 95% Tax Collections	\$0.15
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2021)	
Based on 2018 Taxable Assessed Valuation at 95% Tax Collections	\$0.19

- (a) Represents the taxable assessed valuation of all taxable property in the Authority as of January 1, 2018, as provided by the Harris County Appraisal District.
- (b) As a result of House Bill 1324 passed by the Texas Legislature in 2013 (“House Bill 1324”), certain landowners within the Authority have the right to be de-annexed from the Authority at such landowner’s sole discretion, if, among other terms and conditions, the Authority does not provide retail utility service to such landowner’s property. As of January 1, 2018, such landowners own taxable properties that comprise approximately \$421,013,788 of the Authority’s 2018 Taxable Assessed Valuation. The Authority’s largest taxpayer based on the 2018 Taxable Assessed Valuation, Kaneka Texas Corporation and related entities (“Kaneka”) whose 2018 Taxable Assessed Valuation is approximately \$175,635,274, filed a petition with the Authority on December 27, 2018, to exclude its land (approximately 193 acres) from the Authority. Pursuant to an Order Excluding Land and Redefining Boundaries dated February 20, 2019, all land in the Authority owned by Kaneka was excluded from the Authority effective December 27, 2018, and will not be included as part of the Authority’s Taxable Assessed Valuation for 2019 and all future years. In accordance with House Bill 1324, landowners who de-annex from the Authority, including Kaneka, remain responsible for their pro-rata share of the then outstanding share of the Authority’s tax supported debt (including debt to refund Authority debt outstanding on the exclusion date) as of the effective date of their exclusion. Pursuant to the provisions of House Bill 1324, any exclusion of land from the boundaries of the Authority under such provision does not invalidate any bonds authorized by the voters of the Authority. See “INVESTMENT CONSIDERATIONS – 2013 Legislation.”
- (c) See “AUTHORITY DEBT – Direct and Estimated Overlapping Debt Statement.”
- (d) Neither Texas law nor the Bond Order requires that the Authority maintain any particular sum in the Debt Service Fund. Reflects the balance of the Authority’s debt service fund after reduction for payment of debt service due March 1, 2019.
- (e) Requirement of debt service on the Outstanding Bonds and the Bonds. See “AUTHORITY DEBT – Debt Service Requirements.”

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Clear Lake City Water Authority (the "Authority") of its \$24,500,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to (i) an order adopted by the Board of Directors of the Authority on the date of the sale of the Bonds (the "Bond Order"), (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 51, Texas Water Code, as amended, (iii) an election held within the Authority on November 8, 2016, and (iv) an order issued by the Texas Commission on Environmental Quality ("TCEQ").

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

This Official Statement also includes information about the Authority 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.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order of the Board of Directors of the Authority (the "Board"). A copy of the Bond Order may be obtained from the Authority upon request to Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the Authority.

The Bonds will mature on March 1 of the years and in principal amounts, and will bear interest from June 1, 2019, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable September 1, 2019, and semiannually thereafter on each March 1 and September 1 (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds that mature on or after March 1, 2025, are subject to redemption prior to maturity at the option of the Authority, in whole or from time to time in part, on March 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If fewer than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the Authority. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (hereinafter defined) shall select the particular Bonds to be redeemed by such random method as it deems fair and appropriate.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Initially, principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System."

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owners (the "Registered Owners") appearing on the registration and transfer books (the "Register") of the Paying Agent/Registrar at the close of business on the fifteenth calendar day of the month next preceding each Interest Payment Date ("Record Date") and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the Registered Owners recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owners. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to

close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Registered Owners of a Bond appearing in the registration and transfer books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by 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 Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Authority 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 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.

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).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority 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, Authority or Paying Agent/Registrar, 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 the Authority 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 Authority 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 Authority 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.

Paying Agent/Registrar

The Board has selected The Bank of New York Mellon Trust Company, N.A., as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Dallas, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the Authority shall be a corporation organized and doing business under the laws of the United

States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$10,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

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 form, 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 system, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Registration and Transfer

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 principal payment office of the Paying Agent/Registrar in Dallas, 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 Registered Owner. 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 Registered Owner or assignee of the Registered Owner 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 Authority 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 Authority or Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the Authority 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 Authority and the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The Authority may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The Bonds are issued by the Authority pursuant to the terms and conditions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 51 of the Texas Water Code, as amended; an election held within the Authority on November 8, 2016; and an order issued by the TCEQ.

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

The Bonds are the obligations solely of the Authority and are not the obligations of the State of Texas; Harris County, Texas; Houston County, Texas; the Cities of Houston, Pasadena, La Porte, Taylor Lake Village, and Webster, Texas; or any other entity. The Bonds together with the Outstanding Bonds (as defined herein) and such additional combination tax and revenue bonds as may hereafter be issued by the Authority will be payable from the proceeds of a continuing direct annual ad valorem tax levied against all taxable property located within the Authority and will also be payable from Net Revenues (hereinafter defined) all to the extent and subject to the conditions described below.

- Tax Pledge -

The Outstanding Bonds, the Bonds, and any additional tax bonds as may hereafter be issued by the Authority are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the Authority. In the Bond Order, the Authority covenants to levy a sufficient tax to pay the principal of and interest on the Outstanding Bonds and the Bonds with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the Authority's Debt Service Fund used to pay principal of and interest on the Outstanding Bonds and the Bonds, and on additional bonds payable from taxes which may hereafter be issued by the Authority.

- Net Revenue Pledge -

The Outstanding Bonds and the Bonds (and any additional bonds issued by the Authority to which such revenues are pledged) are further payable from, and secured by a pledge of and lien on, certain net revenues, if any, of the Authority's waterworks and sewer system (the "System"). Net revenues ("Net Revenues") are defined by the Bond Order as all income or increment which may grow out of the ownership and operation of the Authority's plants, facilities and improvements (as same are purchased, constructed or otherwise acquired), being the gross revenue income, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the Authority's plants, facilities and improvements, and to establish an operating reserve. It is not expected that the Net Revenues will ever be sufficient to materially contribute to debt service payments on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to residents and users in the Authority.

Optional Redemption

The Bonds that mature on or after March 1, 2025, shall be subject to redemption at the option of the Authority, in whole or from time to time in part, on March 1, 2024, 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 fewer than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the Authority. 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.

Mandatory Redemption

The Bonds due on March 1, 2035 (“Term Bonds”) are also subject to mandatory sinking fund redemption by the Authority by lot or other customary method prior to scheduled maturity on March 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below at a redemption price of par plus accrued interest to the date of redemption:

\$3,105,000 Term Bonds Maturing on March 1, 2035	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2034	\$1,525,000
March 1, 2035	\$1,580,000

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

Outstanding Bonds

The Authority has previously issued thirty-eight (38) series of waterworks and sewer system combination unlimited tax and revenue bonds, fifteen (15) series of waterworks and sewer system combination unlimited tax and revenue refunding bonds (including the Authority’s \$6,120,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2019, which were issued on May 9, 2019), and one (1) series of subordinate lien revenue bonds. Of such series of bonds previously issued by the Authority, \$86,500,000 principal amount is outstanding (the “Outstanding Bonds”) as of May 10, 2019.

Effect of Annexation or Incorporation and Dissolution

All the property within the Authority, with the exception of the tract located in Houston County, Texas, is currently within the city limits and/or the extraterritorial jurisdiction of the Cities of Houston, Pasadena, La Porte, Taylor Lake Village, and Webster, Texas. Land located within the Authority, which is not within the limits of any city, but is within the extraterritorial jurisdiction of a city, may be annexed by such city. However, under legislation effective December 1, 2017, a city may not annex the Authority 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. Under Texas law, no tract of land may be annexed by a city unless it is within the city’s extraterritorial jurisdiction at the time of the annexation.

- Partial Annexation or Incorporation -

Under existing law, land not within the corporate limits of a city and within the Authority may, under certain circumstances, be annexed in part or in whole by the affected city, but the Authority shall continue to exist and retain its power to tax property within its boundaries, to operate and maintain the System, and to make service charges for the use thereof.

- Complete Annexation or Incorporation -

In the event that an annexation and/or incorporation results in all of the territory within the Authority being contained within the corporate limits of one or more cities, the Authority could be dissolved only if the provisions of Section 43.076 of the Texas Local Government Code are satisfied. Under Section 43.076,

dissolution must be accompanied by agreement among the Authority and all the cities in which the Authority then lies, which agreement may specify any agreed method of allocation of assets and liabilities.

Consolidation

A water control and improvement district, such as the Authority, has the legal authority to consolidate with other districts, thereby consolidating its assets (such as its cash and its water and wastewater systems) and its liabilities (which would include the Bonds) with the assets and liabilities of the district or districts with which it is consolidating.

Defeasance

The Bond Order provides that the Authority 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 or payment (paying agent) for obligations of the Authority payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Authority adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Authority adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 Authority 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 Authority: (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. In the Bond Order, the Authority has specifically reserved the right to call the Bonds for redemption after the defeasance thereof.

Issuance of Additional Debt

The Authority may issue bonds to provide those improvements and facilities for which the Authority was created, with approval of the TCEQ and, in the case of bonds payable from ad valorem taxes, the Authority's voters. Following the issuance of the Bonds, \$33,550,400 principal amount of unlimited tax and revenue bonds authorized by the Authority's voters at an election held on November 8, 2016, for the purpose of repairing, rehabilitating and making capital improvements to the Authority's existing water, wastewater and drainage facilities, \$50,322,483 principal amount of unlimited tax refunding bonds authorized by voters at an election held on November 3, 2009, and \$132,000,000 principal amount of unlimited tax refunding bonds authorized by the Authority's voters at an election held on November 8, 2016, will remain authorized but unissued.

Additional bonds or other financial methods will be necessary to finance the facilities to serve the remaining undeveloped but developable acres within the Authority. Additional tax bonds may be authorized by the

Authority's voters in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the Authority. Any additional bonds issued by the Authority may be on a parity with the Bonds. Issuance of additional bonds could dilute the investment security for the Bonds.

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

The Legislature has enacted legislation, effective September 13, 2003, allowing a district such as the Authority to levy an operation and maintenance tax to support parks and recreational facilities at a rate not to exceed ten cents (10¢) per \$100 of assessed valuation of taxable property in the Authority, after such tax is approved at an election. In addition, the Authority is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of parks and recreational facilities if (i) the Authority duly adopts a park plan; (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 Authority at the time of issuance of the bonds, or an amount greater than the estimated cost of the park plan, whichever amount is smaller; (iv) the Authority obtains any necessary governmental consents allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The Authority may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations adopted by the TCEQ.

At this time the Authority has not considered calling an election for such purposes but could consider doing so in the future. Issuance of bonds for park and recreational facilities could dilute the investment security for the Bonds.

Special Tax Covenants

The Authority has additionally covenanted in the Bond Order that it will:

- (1) not use, permit the use of, or omit to use proceeds of the sale of the Bonds, amounts derived from the investment thereof, or funds held in the Bond Fund (collectively, the "Proceeds") or any other amounts (or any property acquired, constructed, or improved with the Proceeds) in a manner which, if made or omitted, respectively, would cause interest on any Bond to become includable in the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended (the "Code"), of the owner thereof for federal income tax purposes;
- (2) not, at any time prior to the final maturity of the Bonds, either (a) use or permit the use of Proceeds or any such property acquired, constructed or improved with Proceeds in any trade or business carried on by any person or entity (or in any activity of any non-natural person) other than a state or local government or (b) directly or indirectly impose or accept any charge or other payment for the use, as such use is described in the Bond Order, of the Proceeds (or any property acquired, constructed, or improved with the Proceeds) in any trade or business carried on by any person other than a state or local government, unless such use is merely as a member of the general public or said charge or payment consists of taxes of general application within the Authority or interest earned on certain investments acquired with the Proceeds pending application for their intended purposes;
- (3) not use the Proceeds to make or finance loans, as described in the Bond Order, to any person or entity other than a state or local government, excluding loans consisting of temporary investments of the proceeds pending application for their intended purposes but including any

transaction which constructively transfers ownership of property financed with Proceeds for federal income tax purposes;

- (4) not, except during certain temporary periods described in the Bond Order, at any time prior to the maturity of the Bonds, directly or indirectly invest the Proceeds in taxable investments (or use such proceeds to replace money so invested), if as a result of such investment the yield of all such taxable investments acquired with the Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the yield of the Bonds;
- (5) not (a) use any money to pay principal of or interest on the Bonds, or pledge (or permit to be pledged) or otherwise restrict any money, funds, or investments so as to give reasonable assurance of their availability for such purpose, except in each case amounts deposited to the Bond Fund, or (b) apply any Proceeds, directly or indirectly, to pay principal of and interest on any other indebtedness of the Authority, any other governmental entity which is included within the Authority, or any corporate or other instrumentality of the Authority or any such governmental entity;
- (6) not cause the Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code;
- (7) file with the Secretary of the Treasury, not later than the fifteenth (15th) day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information report in compliance with the Code; and
- (8) account separately for Proceeds, calculate any “rebtable arbitrage” at least every five years and pay any such “rebtable arbitrage” to the Treasury at the times required by the Secretary of the Treasury.

The Authority may omit to comply with any of the foregoing covenants if in the opinion of nationally recognized bond counsel such omission would not adversely affect the excludability from gross income for federal income purposes of interest on any Bond.

In addition to the above-described covenants, the Authority has made representations sufficient to determine that the Bonds are not “hedge bonds” within the meaning of Section 148(f)(6)(A) of the Code.

The Authority will further represent and warrant in the Bond Order that from the date of sale of such bonds to the Underwriter, the matters described in paragraphs 1–8 above were true with respect to the proceeds from the sale of the issue, amounts derived from the investment thereof, or funds held in the Bond Fund for such bonds.

Amendments to Bond Order

The Authority may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the Authority may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies

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

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners of the Bonds. 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 Authority, such a judgment could not be enforced by direct levy and execution against the Authority's public purpose property. Further, the Registered Owners could not themselves foreclose on property within the Authority or sell property within the Authority in order to pay the principal of and interest on the Bonds.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Authority. Subject to the requirements of Texas law, the Authority may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §§ 901-946, if the Authority: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a water control and improvement district such as the Authority must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the Authority and will authorize the Authority to proceed only if the TCEQ determines that the Authority has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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 Authority:

- (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 Authority (including the Bonds) are eligible as collateral for public funds.

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

Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will be used to pay the construction costs and non-construction costs set forth below.

<u>Construction Costs</u>	<u>District's Share</u>
A. <u>Developer Contribution Items</u>	
None	\$ 0
B. <u>District Items</u>	
1. Water Distribution System Rehabilitation	\$ 1,000,000
2. WWTP, Wastewater System, and Lift Station Rehabilitation	4,035,270
3. Flood Mitigation – Drainage System Improvements	1,000,000
4. Exploration Green Detention Pond – Phase 3B	3,800,000
5. Exploration Green Detention Pond – Phase 5	8,225,380
6. Contingencies (10.00% of Item Nos. 1–5)	1,806,065
7. Engineering (22.00% of Item Nos. 1–5)	<u>3,973,343</u>
Total Construction Costs	\$ 23,840,058
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 122,500
B. Fiscal Agent Fees	147,500
C. Bond Discount (Premium)	(55,581)
D. Bond Issuance Expenses	34,192
E. Bond Application Report Costs	40,000
F. TCEQ Bond Issuance Fee (0.25%)	61,250
G. Attorney General's Fee (0.10% or \$9,500 max.)	9,500
H. Contingency (a)	<u>300,581</u>
Total Non-Construction Costs	\$ 659,942
TOTAL BOND ISSUE REQUIREMENT	\$ 24,500,000

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

(a) Represents surplus funds resulting from the difference between the estimated amount of discount on the Bonds and the amount of premium on the Bonds to be paid by the Underwriter to the Authority upon closing and delivery of the Bonds.

AUTHORITY DEBT

General

The following tables and calculations relate to the Bonds and the Outstanding Bonds. The Authority and various other political subdivisions of government which overlap all or a portion of the Authority are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the Authority.

2018 Taxable Assessed Valuation.....	\$ 5,696,844,514 (a) (b)
Direct Debt:	
The Outstanding Bonds (as of May 10, 2019).....	\$ 86,500,000
The Bonds	<u>\$ 24,500,000</u>
Total.....	\$ 111,000,000 (c)
Estimated Overlapping Debt	<u>\$ 423,864,694 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 534,864,694 (c)
Direct Debt Ratio:	
As a Percentage of 2018 Taxable Assessed Valuation.....	1.95 %
Direct and Estimated Overlapping Debt Ratio:	
As a Percentage of 2018 Taxable Assessed Valuation.....	9.39 %
Debt Service Fund Balance (as of February 28, 2019)	\$ 9,525,986 (d)
General Operating Fund Balance (as of February 28, 2019)	\$ 15,844,277
Capital Projects Fund Balance (as of February 28, 2019).....	\$ 35,717,830
Average Annual Debt Service Requirement (2020–2038)	\$7,824,694 (e)
Maximum Annual Debt Service Requirement (2021).....	\$10,034,063 (e)

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- (a) Represents the taxable assessed valuation of all taxable properties in the Authority as of January 1, 2018, as provided by the Harris County Appraisal District. See "TAXING PROCEDURES" and "TAX DATA."
 - (b) As a result of House Bill 1324 passed by the Texas Legislature in 2013 ("House Bill 1324"), certain landowners within the Authority have the right to be de-annexed from the Authority at such landowner's sole discretion, if, among other terms and conditions, the Authority does not provide retail utility service to such landowner's property. As of January 1, 2018, such landowners own taxable properties that comprise approximately \$421,013,788 of the Authority's 2018 Taxable Assessed Valuation. The Authority's largest taxpayer based on the 2018 Taxable Assessed Valuation, Kaneka Texas Corporation and related entities ("Kaneka") whose 2018 Taxable Assessed Valuation is approximately \$175,635,274, filed a petition with the Authority on December 27, 2018, to exclude its land (approximately 193 acres) from the Authority. Pursuant to an Order Excluding Land and Redefining Boundaries dated February 20, 2019, all land in the Authority owned by Kaneka was excluded from the Authority effective December 27, 2018, and will not be included as part of the Authority's Taxable Assessed Valuation for 2019 and all future years. In accordance with House Bill 1324, landowners who de-annex from the Authority, including Kaneka, remain responsible for their pro-rata share of the then outstanding share of the Authority's tax supported debt (including debt to refund Authority debt outstanding on the exclusion date) as of the effective date of their exclusion. Pursuant to the provisions of House Bill 1324, any exclusion of land from the boundaries of the Authority under such provision does not invalidate any bonds authorized by the voters of the Authority. See "INVESTMENT CONSIDERATIONS – 2013 Legislation."
 - (c) See "AUTHORITY DEBT – Direct and Estimated Overlapping Debt Statement."
 - (d) Neither Texas law nor the Bond Order requires that the Authority maintain any particular sum in the Debt Service Fund. Reflects the balance of the Authority's debt service fund after reduction for payment of debt service due March 1, 2019.
 - (e) Requirement of debt service on the Outstanding Bonds and the Bonds. See "AUTHORITY DEBT – Debt Service Requirements."

Direct and Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the Authority 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 Authority, the Authority 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 Authority 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. See "TAX DATA - Estimated Overlapping Taxes."

Taxing Jurisdiction	Outstanding Debt February 28, 2019	Overlapping	
		Percent	Amount
Clear Creek Independent School District	\$ 910,060,000	22.77%	\$ 207,220,662
Deer Park Independent School District	232,890,000	4.80	11,178,720
Harris County	2,050,758,022	1.32	27,070,006
Harris County Dept. of Education	6,320,000	1.32	83,424
Harris County Flood Control District	83,075,000	1.32	1,096,590
Harris County Hospital District	57,300,000	1.32	756,360
Harris County Toll Road	(a)	1.32	0
City of Houston	3,787,020,000	1.60	60,592,320
La Porte Independent School District	319,985,000	17.60	56,317,360
Pasadena Independent School District	753,985,000	0.56	4,222,316
City of Pasadena	166,120,000	13.38	22,226,856
Port of Houston Authority	593,754,397	1.32	7,837,558
San Jacinto Community College District	500,272,707	4.45	22,262,135
City of Webster	20,865,000	14.38	3,000,387
Total Estimated Overlapping Debt			\$ 423,864,694
Direct Debt (b)			\$ 111,000,000
Total Direct and Estimated Overlapping Debt (b)			\$ 534,864,694

(a) Debt considered to be self-supporting.

(b) Includes the Outstanding Bonds and the Bonds.

Debt Ratios

Direct Debt Ratio:

As a Percentage of 2018 Taxable Assessed Valuation..... 1.95 %

Direct and Estimated Overlapping Debt Ratio:

As a Percentage of 2018 Taxable Assessed Valuation..... 9.39 %

Debt Service Requirements

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

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2019	\$1,493,317	-	\$183,103	\$183,103	\$1,676,420
2020	8,327,986	\$900,000	714,413	1,614,413	9,942,399
2021	8,421,350	935,000	677,713	1,612,713	10,034,063
2022	8,035,359	970,000	639,613	1,609,613	9,644,971
2023	6,207,113	1,010,000	600,013	1,610,013	7,817,125
2024	6,213,375	1,045,000	558,913	1,603,913	7,817,288
2025	6,223,756	1,085,000	521,738	1,606,738	7,830,494
2026	6,232,806	1,130,000	494,163	1,624,163	7,856,969
2027	6,247,691	1,170,000	471,163	1,641,163	7,888,853
2028	6,256,722	1,215,000	447,313	1,662,313	7,919,034
2029	6,267,138	1,265,000	420,931	1,685,931	7,953,069
2030	5,542,894	1,310,000	390,325	1,700,325	7,243,219
2031	5,545,022	1,360,000	353,550	1,713,550	7,258,572
2032	5,566,009	1,415,000	311,925	1,726,925	7,292,934
2033	5,575,275	1,470,000	268,650	1,738,650	7,313,925
2034	5,596,372	1,525,000	223,725	1,748,725	7,345,097
2035	5,609,144	1,580,000	177,150	1,757,150	7,366,294
2036	4,921,313	1,640,000	128,850	1,768,850	6,690,163
2037	4,928,366	1,705,000	78,675	1,783,675	6,712,041
2038	4,946,134	1,770,000	26,550	1,796,550	6,742,684
Total	\$118,157,140	\$24,500,000	\$7,688,472	\$32,188,472	\$150,345,612

Average Annual Debt Service Requirement (2020-2038)\$7,824,694

Maximum Annual Debt Service Requirement (2021).....\$10,034,063

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the Authority in sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds and any additional bonds payable from taxes which the Authority may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The Authority agrees in the Bond Order 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 Authority and the System and for the payment of certain contractual obligations. The Authority levied a maintenance and operation tax of \$0.05 per \$100 assessed value in 2018. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the Authority. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Harris County, including the Authority. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the Authority in establishing its tax roll and tax rate.

Property Subject to Taxation by the Authority

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 Authority are subject to taxation by the Authority. 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 Authority 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 Authority. The Authority may be required to offer such exemptions if a majority of voters approve same at an election. The Authority 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 Authority is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the Authority's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the Authority. Furthermore, the Authority 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 of full value of the veteran's residential homestead. 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. Surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

In addition, a partially disabled veteran or the surviving spouse of a partially disabled veteran is 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 at no cost by a charitable organization at some or no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Finally, 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 transferable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The Authority has granted a 20% homestead exemption for the 2019 tax year. In addition, the Authority grants a homestead exemption of \$80,000 for persons who are disabled or 65 years or older. See "TAX DATA – Analysis of Tax Base."

Freeport Goods Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating or used to repair or maintain aircraft of a certified air carrier and shipped out of the state within 175 days. As the result of a state constitutional amendment passed by Texas voters on November 7, 1989, goods in transit ("freeport goods") are exempted from taxation by the Authority effective January 1, 1990.

Goods-In-Transit Exemption: Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Property Tax Code, which is effective for tax year 2011 and prior applicable years, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes and which 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. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. The Authority has taken action to tax Goods-in-Transit. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax Abatement

Harris County may designate all or part of the area within the Authority as a reinvestment zone. Thereafter, Harris County and the Authority, 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 Authority, for a period of up to ten years,

all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the Authority 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 Authority in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

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

On August 25, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast, severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "INVESTMENT CONSIDERATIONS – Recent Extreme Weather Events" and "– Potential Impact of Natural Disasters." When requested by a local taxing unit, such as the Authority, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The Authority did not request a reappraisal due to Hurricane Harvey.

Tax Payment Installments after Disaster

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

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), 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 fair 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. Landowners wishing to avail themselves of the agricultural use, open space, timberland designation, or the residential real property inventory designation must apply for the designation and the Appraisal District 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 one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Authority can collect taxes based on the new use, including taxes for a period of three (3) to five (5) years for agricultural use, timberland, open space land prior to the loss of designation.

Authority and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the Authority, 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 Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the Authority and provides for taxpayer referenda, which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals which are higher than renditions and appraisals of property not previously on an appraisal role.

Levy and Collection of Taxes

The Authority is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the Authority based on valuation of property within the Authority as of the preceding January 1.

Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to twenty percent (20%) to defray collection costs if imposed by the Authority. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Under certain circumstances, property owners located within a natural disaster area affected by a disaster may pay property taxes in four equal installments following the disaster. Further, a person 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 his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead.

Authority's Rights in the Event of Tax Delinquencies

Taxes levied by the Authority 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 each taxing unit, including the Authority, having the power to tax the property. The Authority's tax lien is on a parity with the tax liens of other such taxing units. See "TAX DATA – Estimated Overlapping Taxes." A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Authority 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 Authority 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 Authority 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 (2) years for residential and agricultural property and six (6) 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. See "INVESTMENT CONSIDERATIONS – General" and "– Tax Collections Limitations."

TAX DATA

General

Taxable property within the Authority is subject to the assessment, levy and collection by the Authority 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 Outstanding Bonds and the Bonds (and any future tax-supported bonds that may be issued from time to time as authorized). Taxes are levied by the Authority each year against the Authority's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order 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. The actual rate of such tax will be determined from year to year as a function of the Authority's tax base, its debt service requirements, and available funds. In addition, the Authority has the power and authority to assess, levy, and collect ad valorem taxes, not to exceed \$0.05 per \$100 of assessed valuation, for operation and maintenance purposes. The Board levied a 2018 tax rate for debt service purposes of \$0.22 per \$100 of assessed valuation and \$0.05 per \$100 of assessed valuation for operation and maintenance purposes for a total tax rate of \$0.27 per \$100 of assessed valuation.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$0.05 per \$100 Assessed Valuation.

Historical Values and Tax Collection History

Tax Year	Assessed Valuation (a)	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 3/1/19
2011	\$4,357,033,793	\$0.28	\$12,199,695	100.00%	2012	100.00%
2012	4,153,944,801	0.28	11,631,045	99.71	2013	99.95
2013	4,279,026,137	0.28	11,981,273	99.45	2014	99.95
2014	4,541,915,627	0.28	12,717,364	99.78	2015	99.93
2015	4,828,494,496	0.27	13,036,935	99.70	2016	99.82
2016	5,277,051,937	0.27	14,248,040	99.59	2017	99.87
2017	5,282,822,752	0.27	14,263,621	99.54	2018	99.70
2018	5,388,906,888	0.27	14,550,049	97.73 (b)	2019	97.73

(a) Values may differ from those shown in the Authority's financial statements and elsewhere in this Official Statement due to subsequent adjustments.

(b) For the 2018 tax year, represents collections as of March 1, 2019.

Tax Rate Distribution

	2018	2017	2016	2015	2014	2013
Debt Service	\$0.22	\$0.22	\$0.22	\$0.22	\$0.23	\$0.23
Maintenance	<u>\$0.05</u>	<u>\$0.05</u>	<u>\$0.05</u>	<u>\$0.05</u>	<u>\$0.05</u>	<u>\$0.05</u>
Total	\$0.27	\$0.27	\$0.27	\$0.27	\$0.28	\$0.28

Analysis of Tax Base

The following table illustrates the Authority's total taxable assessed value in the 2014–2018 tax years by type of property.

Type of Property	2018 Assessed Valuation (a)	2017 Assessed Valuation	2016 Assessed Valuation	2015 Assessed Valuation	2014 Assessed Valuation
Land	\$1,346,050,495	\$1,640,739,177	\$1,565,575,103	\$1,474,515,744	\$1,434,975,199
Improvements	4,904,280,669	4,948,405,617	4,993,781,468	4,593,635,730	4,217,892,798
Personal Property	486,598,055	531,800,633	558,795,632	535,457,133	561,605,651
Exemptions	<u>(1,348,022,331)</u>	<u>(1,838,122,675)</u>	<u>(1,841,100,266)</u>	<u>(1,775,114,111)</u>	<u>(1,672,558,021)</u>
Total (b)	\$5,388,906,888	\$5,282,822,752	\$5,277,051,937	\$4,828,494,496	\$4,541,915,627

Principal Taxpayers

Based upon information supplied by the Authority's Tax Assessor/Collector, the following table lists principal Authority taxpayers, type of property owned by such taxpayers, and the taxable assessed valuation of such property as of January 1, 2018. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2018.

Taxpayer	Type of Property	2018 Assessed Valuation
Kaneka Texas Corporation (a) (c)	Land, Improvements & Personal	\$175,635,274
Kinder Morgan Tejas Pipeline	Land, Improvements & Personal	64,249,105
Boeing Company	Land & Improvements	50,532,331
Preserve Apartments LLC	Land & Improvements	44,529,000
Village on the Lake LTD	Land & Improvements	44,355,179
Schutz Container Systems	Land & Improvements	43,490,284
Equistar Chemicals LP	Land & Improvements	40,789,414
IPT Bayport DC LP	Land & Improvements	39,152,708
El Camino Village of TX	Land & Improvements	36,672,000
Park at Armand Bayou LTD	Land & Improvements	<u>36,624,856</u>
Total Principal Taxpayers		\$576,030,151

Total Principal Taxpayers as a Percentage of Authority's 2018 Assessed Valuation 10.11%

(a) As a result of House Bill 1324 passed by the Texas Legislature in 2013 ("House Bill 1324"), certain landowners within the Authority have the right to be de-annexed from the Authority at such landowner's sole discretion, if, among other terms and conditions, the Authority does not provide retail utility service to such landowner's property. As of January 1, 2018, such landowners own taxable properties that comprise approximately \$421,013,788 of the Authority's 2018 Taxable Assessed Valuation. The Authority's largest taxpayer based on the 2018 Taxable Assessed Valuation, Kaneka Texas Corporation and related entities ("Kaneka") whose 2018 Taxable Assessed Valuation is approximately \$175,635,274, filed a petition with the Authority on December 27, 2018, to exclude its land (approximately 193 acres) from the Authority. Pursuant to an Order Excluding Land and Redefining Boundaries dated February 20, 2019, all land in the Authority owned by Kaneka was excluded from the Authority effective December 27, 2018, and will not be included as part of the Authority's Taxable Assessed Valuation for 2019 and all future years. In accordance with House Bill 1324, landowners who de-annex from the Authority, including Kaneka, remain responsible for their pro-rata share of the then outstanding share of the Authority's tax supported debt (including debt to refund Authority debt outstanding on the exclusion date) as of the effective date of their exclusion. Pursuant to the provisions of House Bill 1324, any exclusion of land from the boundaries of the Authority under such provision does not invalidate any bonds authorized by the voters of the Authority. See "INVESTMENT CONSIDERATIONS – 2013 Legislation."

(b) Values may differ from those shown in the Authority's financial statements and elsewhere in this Official Statement due to subsequent adjustments.

(c) Represents the combined 2018 Taxable Assessed Valuation associated with the following entities: Kaneka Texas Corporation, Kaneka North America LLC, and Kaneka High-Tech Materials.

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 debt service requirements on the Outstanding Bonds and the Bonds if no growth in the Authority occurs beyond the taxable assessed valuation as of January 1, 2018, in the amount of \$5,696,844,514. The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2020–2038)	\$7,824,694
Tax Rate of \$0.15 on the 2018 Taxable Assessed Valuation at 95% collection produces.....	\$8,118,003
Maximum Annual Debt Service Requirement (2021)	\$10,034,063
Tax Rate of \$0.19 on the 2018 Taxable Assessed Valuation at 95% collection produces.....	\$10,282,804

Estimated Overlapping Taxes

Property within the Authority is subject to taxation by several taxing authorities in addition to the Authority. 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 Authority 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 Authority and of such other jurisdictions (see “AUTHORITY DEBT – Direct and Estimated Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

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

<u>Taxing Jurisdiction</u>	<u>2018 Tax Rate Per \$100 of A.V.</u>
The Authority	\$0.270000
Harris County	0.418580
Harris County Department of Education	0.005190
Harris County Flood Control District	0.028770
Harris County Hospital District	0.171080
Port of Houston Authority	0.011550
Clear Creek Independent School District	<u>1.400000</u>
 Total Tax Rate	 <u>\$2.305170(a)</u>

(a) Portions of the Authority lie within other cities and school districts. See “Other Taxing Jurisdictions in the Authority” below and “AUTHORITY DEBT – Direct and Estimated Overlapping Debt Statement.”

<u>Other Taxing Jurisdiction in the Authority</u>	<u>2018 Tax Rate Per \$100 of A.V.</u>
<u>School Districts:</u>	
Deer Park Independent School District	\$1.538700
La Porte Independent School District	1.380000
Pasadena Independent School District	1.480000
 <u>Junior College District:</u>	
San Jacinto Community College District	\$0.179329
 <u>Cities:</u>	
City of Pasadena	\$0.615446
City of Taylor Lake Village	0.262600
City of Webster	0.347940
City of Houston	0.588310

THE AUTHORITY

General

The Authority was created by House Bill 1003, Chapter 101, 58th Legislature of Texas, Regular Session, on May 6, 1963 (compiled as 8280-280, Texas Revised Civil Statutes and recodified as Chapter 9029, Texas Special District Local Laws Code). The Authority was created to provide, operate, and maintain waterworks systems, sanitary sewer systems, storm sewer systems and drainage facilities to serve the land within its boundaries. The Authority operates under the authority of the Texas Constitution, Chapter 9029 of the Texas Special Districts Local Laws Code, and Chapters 49 and 51 of the Texas Water Code, as amended.

Description

The Authority is situated almost entirely in southeast Harris County in the Clear Lake area, about 20 miles southeast of the central business district of the City of Houston. Its northwest to southwest boundary is State Highway 3 which parallels Interstate Highway 45. The Authority is situated north of Clear Lake and surrounds the Johnson Space Center on three sides. Ellington Field, a general aviation airport of the City of Houston which also provides commercial service, is located just outside the Authority's northwest boundary. At the time of its creation on May 6, 1963, the Authority consisted of 12,269 acres. On May 10, 1963, the annexation of an additional 2,965 acres was approved by the Authority, which coupled with other smaller annexations, and exclusions of approximately 752 acres, results in a total land area of approximately some 15,644 acres. Of this total, 1,428 acres are in the Bayport Industrial Project. This acreage has been developed and is subject to ad valorem taxation by the Authority, but no portion of it currently receives service from the Authority. See "INVESTMENT CONSIDERATIONS – 2013 Legislation." Out of the remaining 14,216 acres, approximately 12,569 acres have been developed for commercial, residential, and public recreational use; and approximately 409 acres remain to be developed. See "STATUS OF DEVELOPMENT AND ECONOMIC ACTIVITY IN AND AROUND THE AUTHORITY." The Authority also owns a small tract of land located within Houston County that is located within its boundaries.

Topography and Drainage

The general area of the Authority ranges in elevation from 10 feet mean sea level along the extreme eastern boundary near Clear Lake to about 35 feet mean sea level along the northwestern boundary. Substantially all existing areas or areas proposed for development within the Authority are above the projected 100-year flood plain. In the general area of the Authority, there are three well-defined major watersheds. The three major drainage channels are Horsepen Bayou on the west, Armand Bayou in the central area, and Cow Bayou on the south. These streams drain a total area of about 54,000 acres and, ultimately, discharge through Clear Lake into Galveston Bay. Drainage of the developed subdivisions is accomplished by means of enclosed storm sewer systems which outfall into improved channels of the three major streams.

Subsidence District

The Authority is within the Harris-Galveston Subsidence District (the "Subsidence District") which regulates the withdrawal of groundwater within its jurisdiction. The Authority's authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. On January 9, 2013, the Subsidence District adopted a District Regulatory Plan, as amended (the "2013 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 2013 Plan, the Authority's groundwater withdrawals must comprise no more than 10% of the Authority's total water demand. A disincentive fee is applied to any groundwater withdrawn that constitutes greater than 10% of the Authority's total water demand. The Authority is in compliance with the 2013 Plan. See "THE SYSTEM – Description."

City of Houston Drainage Fee

Voters of the City of Houston, Texas, approved an assessment and collection of a city-wide drainage fee in a November 2010 election. The Authority and the City of Houston entered into an agreement in 2012 providing for the waiver of the drainage fee for landowners located within the City of Houston and the Authority. Residents of the City of Houston within the Authority are, in general, provided with drainage services by the Authority, with the exception of that component related to streets, curbs, gutters, and inlets. The streets, curbs, gutters, and inlets that are within both the City of Houston and the Authority are

maintained by the City of Houston, as they historically have been, pursuant to such agreement between the City of Houston and the Authority.

Management of the Authority

The Authority is governed by a board of five directors which has control over and management supervision of all affairs of the Authority. All of the Directors reside and own taxable property within the Authority. Directors of the Authority are elected to serve four-year staggered terms, and elections are held in even-numbered years. The members and officers of the Board of Directors of the Authority, along with their occupations and terms, are listed below.

Board of Directors

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>	<u>Employer/Occupation</u>	<u>Years of Service</u>
John B. Branch	President	2020	Retired	22 Years
Robert T. Savely	Vice President	2020	NASA – Senior Scientist	42 Years
W. Thomas Morrow	Secretary	2022	360 CloudTech LLC, COO	4 Years
Gordon Johnson	Director	2022	Retired	6 Years
John Graf	Director	2020	NASA – Research Engineer	3 Years

Authority Officials

<u>Official</u>	<u>Years with Authority</u>	<u>Position</u>
Jennifer Morrow	21	General Manager and Treasurer
Mary Ann Schatz	41	Capital Projects Bookkeeper
Rachael Crider, RTA, CTA	1	Tax Assessor/Collector

Employees and Employee Benefits

The Authority presently has 60 full-time employees engaged in administrative, operations, maintenance, and clerical functions. As a part of its benefits program, the Authority provides hospital, dental, vision, long term disability and life insurance for all of its employees, and the majority of the costs are borne by the Authority. Additionally, a family group plan is available to which the employee contributes up to 20% of the cost of the premium. Also offered to regular employees is a private pension plan, adopted and executed August 20, 1973. Since October 1, 1973, retirement benefits have been offered to all full-time employees who have completed one year of credited service. This benefit is funded entirely by the Authority. The funds are maintained and administered by the ICMA Retirement Corporation, Washington, D.C. The plan provides for full vesting after seven years of employment. The Authority also provides for vacations, sick leave, and holiday schedules for all its full-time employees.

The Authority's Consultants

The Authority has retained several consultants to perform professional services primarily in connection with the issuance of its bonds and subsequent construction activities. Certain of the consultants may also be employed by the Authority to perform professional services outside the scope of the issuance of the Bonds. To the extent the consultants are involved directly in the issuance of the Bonds, their fees may be contingent upon the sale and delivery of such Bonds. A listing and brief description of the consultants follows:

As required by the Texas Water Code, the Authority retains an independent auditor to audit the Authority's financial statements annually, which audit is filed with the TCEQ. The Authority's current auditor is McCall

Gibson Swedlund Barfoot PLLC. A copy of the Authority's audit for the fiscal year ended September 30, 2018, is attached as "APPENDIX A" to this Official Statement.

The consulting engineer for the Authority in connection with the design and construction of the System is Lockwood, Andrews and Newnam, Inc. See "THE SYSTEM – Description."

The Authority has contracted with Perdue, Brandon, Fielder, Collins & Mott, L.L.P. as its Delinquent Tax Attorney. The Authority has contracted with the law office of Chris A. Scherer for general employment law matters.

The Authority has contracted with Sanford Kuhl Hagan Kugle Parker Kahn LLP, as Bond Counsel in connection with the issuance of the Bonds. See "LEGAL MATTERS." Coats Rose, P.C. provides general counsel services to the Authority.

The Authority has engaged the firm of Robert W. Baird & Co. Incorporated as Financial Advisor to the Authority. Payment to the Financial Advisor by the Authority is contingent upon the issuance, 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.

STATUS OF DEVELOPMENT AND ECONOMIC ACTIVITY IN AND AROUND THE AUTHORITY

Since 1963, development has occurred on approximately 12,569 acres within the Authority for residential, commercial and recreational uses as the Clear Lake City Project of Friendswood, Ltd. In addition, 1,428 acres within the Authority have been developed as the Bayport Industrial Project for industrial purposes. As of January 1, 2019, there were approximately 16,677 completed homes; 47 completed multi-family complexes comprising 10,147 apartments, townhomes, duplexes and condominium units; and 3,122 acres of commercial and industrial parks. Approximately 409 acres within the Authority remain to be developed. See "THE BONDS – Issuance of Additional Debt."

-Residential-

The Authority is currently composed of 30 residential subdivisions. Development is substantially completed in the Oakbrook, Bay Knoll, Camino South, University Green, Meadowgreen, Oakbrook West, Middlebrook, Brook Forest, Bay Glen, Clear Lake Forest, Kirby Woods, Kirby Oaks, Taylor Lake Estates, Timber Cove, Bay Forest, Bay Pointe, Brookwood, Northfork, Kirby Bend, Kirby Place, Bay Oaks, Pine Brook, Village Grove area, Taylor Lake Shores, Harbour Village, Lake Country, Kirby Lake, Harbour Estates, Roy Isles Estates and University Park subdivisions. New homes and sales of existing homes in these subdivisions range in sales price from approximately \$35,000 to \$1.8 million. As of January 1, 2019, there are approximately 16,677 completed single-family residences and 10,147 apartments, townhomes, duplexes and condominium units within the Authority.

-Commercial and Industrial-

Approximately 1,428 acres within the Authority have been developed as the Bayport Industrial Project ("Bayport"), a planned industrial development of approximately 10,750 total acres.

Bay Terrace and University Park were developed to provide office and commercial sites in the Authority. Bay Terrace is a commercial subdivision of 154 acres, of which 9 acres are owned by Exxon Land Development Inc. ("ELD"). University Park, Section 1, is a subdivision of 141 acres in which Boeing occupies a building containing 410,000 square feet of office space.

Clear Point Crossing is currently under development. Upon completion it will include approximately 65.48 acres of commercial development.

-Major Employers-

The Johnson Space Center of the National Aeronautics and Space Administration ("NASA"), which was responsible for NASA's space shuttle and space station projects, is an important part of the Clear Lake area economy, both as an employer of approximately 3,000 civil service employees and more than 12,000 local contractors. In addition, Space Center Houston, a visitor complex and educational facility, has approximately

800,000 visitors annually. The rate and extent of continued development within the Clear Lake area could be influenced by the degree of continued federal funding of NASA projects.

A major employment base in the general area is Bayport, a planned industrial development of approximately 10,750 acres, of which approximately 1,428 acres lie within the Authority, with approximately 62 industrial plants in operation. Bayport is located in southeast Harris County approximately 23 miles from the central business district of the City of Houston. It includes a 40-foot deep water port and channel facility connected to the Houston Ship Channel, barge dock facilities, a pipeline network and railroad service lines.

-Shopping and Healthcare-

The Baybrook Mall, serving the southeast metropolitan Houston Area and Galveston County, is approximately one mile from the Authority. The mall contains 1.2 million leasable square feet and is anchored by four major department stores.

Presently serving the Clear Lake area are three general hospitals, Clear Lake Regional Medical Center in the City of Webster with 536 beds; Memorial Hermann Southeast Hospital in the City of Houston with 293 beds; and Houston Methodist Clear Lake Hospital in the City of Nassau Bay with 178 beds.

-Educational-

Serving the area is the University of Houston-Clear Lake, constructed on a 524-acre site in the Authority, with enrollment figures of approximately 7,914 students comprising 4,823 undergraduate students and 3,091 graduate students. The San Jacinto College District operates a South Campus on 13735 Beamer Road with a current enrollment of approximately 8,000 students. The San Jacinto College Clear Creek Extension Center is located at Clear Creek High School in League City. The College of the Mainland in Texas City, Texas, is a junior college with approximately 3,521 full-time students enrolled.

-Transportation-

The area is served by several major highways. In addition to the highways and major thoroughfares within the limits of the Authority, external access is provided by Interstate Highway 45 (the Gulf Freeway), State Highway 3, NASA Road 1, Farm-to-Market Road 2351 (Clear Lake City Boulevard) and State Highway 146. Bay Area Boulevard is the major thoroughfare through the Authority connecting the Gulf Freeway with State Highway 146. In addition to Bay Area Boulevard, two other major thoroughfares provide access to the Gulf Freeway.

The Metropolitan Transit Authority ("MTA") provides direct bus service to downtown Houston from a 1,200-space park-and-ride lot located within the Authority.

Hobby Airport, the 33rd largest airport in the nation and one of Houston's two airports providing regularly scheduled commercial airline service, is 12 miles from the Authority.

Ellington Airport, located immediately adjacent to the Authority's northwest boundary, provides governmental, commercial, and general aviation service.

THE SYSTEM

Regulation

According to the Engineer, the System has been designed in accordance with accepted engineering practices and recommendations and is subject to the inspection of Harris County Public Infrastructure Department, Harris County Flood Control District, Texas Department of Health, and TCEQ.

General

The Authority's System presently includes facilities for producing or receiving, disinfecting, pressurizing, storing and distributing potable water; collecting, receiving, treating and discharging wastewater; and collecting, diverting and carrying off rainwater and stormwater to serve approximately 12,569 developed acres out of the total 15,644 acres within the Authority.

Description

- Water System -

The Authority's waterworks system is comprised of four water storage and pumping plants having a combined capacity of 7.85 million gallons of storage and 36,900 gallons per minute ("gpm") pumping capacity; eight water wells, capable of producing 12.84 million gallons per day ("MGD"); five elevated tanks having a combined storage capacity of 3.5 million gallons of storage and a system of distribution mains ranging in size from 6-inches in diameter up to 30-inches in diameter. The water supply for the Authority is provided through a 42-inch potable surface water line from the City of Houston along the Authority's western boundary at State Highway 3, and a 24-inch line on the north side tied directly to the Southeast Water Treatment Plant. Primarily during peak hot weather periods, wells are used to supplement the treated surface water and constitute less than 10% of yearly usage. See "THE AUTHORITY – Subsidence District." The Authority commenced taking potable water from surface water sources of the City of Houston in June 1976, for redistribution by the Authority in its System and for supplying the neighboring Johnson Space Center and the City of Nassau Bay. The Authority and the City of Houston entered into a contract in February of 2000, superseding their prior contracts for the purchase of potable water being supplied to the Authority by the City of Houston. This contract provided for the Authority to join with the City of Houston, and other political entities, to construct a new water purification plant of which the Authority would own 7.5 MGD peak daily capacity and a peak hourly pumping rate of 15.0 MGD (10,417 gpm). As described below, in 2001 the Authority exercised its right to purchase an additional 12.95 mgd of water capacity provided by the Southeast Water Treatment Plant, for a total of 20.45 mgd. Treated surface water, as supplied by the Southeast Water Treatment Plant, is and is expected to continue to be the prime source of potable water for the Authority. According to the Authority's Engineer, the water supply capacity is sufficient to serve the existing and proposed development in the Authority. The System meets State requirements for a "Superior" water system and the "State Board of Insurance" criteria. The Authority furnishes water services to a few customers outside its boundaries. See "THE AUTHORITY – Subsidence District" and "THE SYSTEM – Description – Water Supply Contract."

The Authority has installed a system using reclaimed wastewater to supply irrigation water to the Bay Oaks Country Club Golf Course and the University of Houston-Clear Lake for their irrigation and landscaping purposes.

With the exceptions described in this paragraph, the Authority provides retail service directly to the residents and commercial customers in its boundaries. Water and sanitary sewer utility service for the Village Grove subdivision, Pasadena River Oaks, Santorini, Providence Bayou, Village Grove East, Turtle Creek subdivisions and Village Grove East Townhomes (aggregating 531 acres) and maintenance of the system is provided through facilities owned and maintained by the City of Pasadena. The Kirby-Bend subdivision (39 acres) and the Kirby Lake subdivision (39 acres) are also provided wholesale water service by the City of Pasadena but the subdivision distribution systems are owned and maintained by the Authority.

Water and sanitary sewer service for industrial users located within Bayport is provided by a private provider (non-potable water), City of Pasadena (potable water), and Gulf Coast Water Authority (wastewater). See "INVESTMENT CONSIDERATIONS – 2013 Legislation."

- Wastewater System -

The Authority's wastewater system is comprised of sanitary sewer collection lines, trunk sewers and thirty sewage lift stations. All wastewater from subdivisions within its boundary, except for Village Grove, Pasadena River Oaks, Santorini, Providence Bayou, Village Grove East, Turtle Creek subdivisions and Village Grove East Townhomes, is treated at the Authority's treatment plant. The Authority furnishes wastewater treatment services to several outside customers, including NASA, which owns and utilizes 0.91 MGD of the Authority's treatment plant capacity. The treatment plant is permitted for 10.0 MGD.

- Drainage System -

The Authority's drainage system is composed of storm sewer pipes that outfall to a series of improved ditches and drainage channels and detention basins. The Authority constructs the ditches, most of which are thereafter maintained by the Harris County Flood Control District. The entire area drains ultimately into Clear Lake and thence into Galveston Bay.

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- The Subsidence District -

The Authority (except for the tract in Houston County) is within the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates the withdrawal of groundwater within its jurisdiction. The Authority’s authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. On January 9, 2013, the Subsidence District adopted a District Regulatory Plan, as amended (the “2013 Plan”) to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District’s jurisdiction. Under the 2013 Plan, the Authority’s groundwater withdrawals must comprise no more than 10% of the Authority’s total water demand. A disincentive fee is applied to any groundwater withdrawn that constitutes greater than 10% of the Authority’s total water demand. The Authority is in compliance with the 2013 Plan. The issuance of additional bonds by the Authority at some time in the future in an undetermined amount may be necessary to meet such other regulations as the Subsidence District may adopt from time to time.

- Water Supply Contract -

The Authority and the City of Houston entered into a Cost Sharing Water Project Contract (the “Contract”) wherein the Authority, certain other municipal utility districts, the Galveston County Water District and the Cities of Nassau Bay, Pasadena, Webster, Friendswood, La Porte, and Houston agreed to jointly finance the construction and operation of the Southeast Water Treatment Plant to be constructed and operated by the City of Houston. Under the terms of the Contract, the Authority purchased an additional 12.95 MGD peak daily capacity for a total of 20.45 MGD capacity in the Southeast Water Treatment Plant. The Southeast Water Treatment Plant is the primary source of potable water for the Authority, and the Authority has the right to purchase additional capacity in future plant expansions or unused capacity from other participants. Other municipalities and governmental entities have entered into similar contracts to participate in the financing of the construction and operation of the Southeast Water Treatment Plant. It is agreed in the Contract that up to 20.45 MGD of potable water will be delivered by the Southeast Water Treatment Plant to the Authority at a rate of \$0.6116 per 1,000 gallons, which rate may be annually adjusted based upon changes in the operation and maintenance. In addition to water received from the Southeast Water Treatment Plant, the Authority uses its existing water wells to meet peak demands.

Historical Water Consumption Data

The Authority’s water system has met the demand for water production during the past ten fiscal years as follows:

Fiscal Year Ended	Total Amount of Water Pumped into System in Thousands of Gallons	Total Amount of Water Billed to Customers in Thousands of Gallons	Percent of Water Billed to Water Pumped	Active Meters in Service
2008	3,318,913	2,651,607	81.90	17,740
2009	3,430,397	2,824,831	84.55	17,732
2010	3,069,909	2,490,668	83.38	17,700
2011	4,128,904	3,247,613	80.84	17,648
2012	3,223,788	2,560,063	81.81	17,877
2013	3,177,541	2,661,004	86.14	17,655
2014	2,846,450	2,502,544	90.35	17,684
2015	2,777,380	2,478,872	91.39	17,649
2016	2,877,597	2,502,076	89.95	17,821
2017	3,006,611	2,470,318	86.99	17,809
2018	2,964,692	2,680,888	90.43	17,426

Water and Sewer Rates

The rates shown below for water and sewer services furnished to customers of the Authority’s water and sewer system are currently in effect for the Authority.

Water Rates

Residential – Bi-Monthly Billing

First 2,000 gallons.....	\$11.00 (Minimum)
Next 8,000 gallons.....	\$ 1.00/1,000 Gals.
Next 10,000 gallons.....	\$ 2.75/1,000 Gals.
All additional gallons.....	\$ 2.28/1,000 Gals.

Multi-Family and Commercial – Monthly Billing

First 1,000 gallons.....	\$ 5.50 (Minimum)
Next 4,000 gallons.....	\$ 1.00/1,000 Gals.
Next 5,000 gallons.....	\$ 2.75/1,000 Gals.
All additional gallons.....	\$ 2.28/1,000 Gals.

Sewer Rates

The sum of \$1.50 charged each month is included in the minimum rate for each sewer connection to the Authority’s sewer system, regardless of the volume of usage of sewer services, if any, through such connection. The \$1.50 charge for multi-family connection applies per unit.

In addition, the base sewer rate applied shall be \$1.90 per 1,000 gallons of metered sewage flow. When there is no metered sewage flow, the following flow factor is applied to the metered water usage:

<u>Metered Water Usage</u>	<u>Cost/1,000 Gallons of Water Usage</u>	<u>Sewage Return Based Upon % Of Metered Usage</u>
Residential - Bi-Monthly Billing		
0 to 2,000 gallons	\$11.00 Minimum	100%
Next 8,000 gallons	\$1.00	100%
Next 10,000 gallons	\$1.90	85%
Next 10,000 gallons	\$1.90	40%
More than 30,000 gallons	\$1.90	25%
Multi-Family - Monthly Billing		
0 to 1,000 gallons	\$5.50 Minimum	100%
Next 4,000 gallons	\$1.00	100%
Next 5,000 gallons	\$1.90	85%
More than 10,000 gallons	\$1.90	10%
Commercial - Monthly Billing		
0 to 1,000 gallons	\$5.50 Minimum	100%
Next 4,000 gallons	\$1.00	100%
Next 15,000 gallons	\$1.90	95%
Next 10,000 gallons	\$1.90	65%
More than 30,000 gallons	\$1.90	50%

Historical Operations of the System

The following summary of the Authority's operating fund shows figures for the fiscal years ended September 30, 2014, through September 30, 2018. Such figures were obtained from the Authority's most recent financial statements, attached hereto as "APPENDIX A."

Revenues	For Fiscal Year Ended September 30				
	2018	2017	2016	2015	2014
Property Taxes	\$ 2,757,138	\$ 2,614,780	\$ 2,453,923	\$ 2,296,725	\$ 2,178,090
Water Service	6,839,175	6,454,504	6,656,052	6,232,072	6,137,415
Wastewater Service	4,601,452	4,510,080	4,595,664	4,416,166	4,315,069
Penalty and Interest	86,818	83,632	97,089	121,405	112,760
Tap Connection & Inspection	804,315	524,161	394,993	281,965	87,029
Grant Revenues	454,819	-	-	-	-
Investment Revenues	222,906	96,670	34,284	4,802	3,065
Miscellaneous Revenues	490,314	373,865	297,380	322,507	214,286
Total Revenues	\$ 16,256,937	\$ 14,657,692	\$ 14,529,385	\$ 13,675,642	\$ 13,047,714
Expenditures					
Payroll	\$ 4,708,596	\$ 4,740,899	\$ 4,229,916	\$ 4,059,932	\$ 3,947,077
Bulk Water Purchases	1,928,777	3,169,801	2,591,386	2,021,735	1,775,078
Professional Fees	1,139,488	798,725	891,593	713,918	768,657
Utilities	865,579	921,634	926,870	833,780	891,641
Repairs and Maintenance	867,551	469,417	807,749	485,497	382,678
Other (a)	2,673,104	2,648,109	2,415,706	2,510,257	2,403,178
Capital Outlay	3,812,522	744,004	391,735	1,847,660	2,702,685
Total Expenditures	\$ 15,995,617	\$ 13,492,589	\$ 12,254,955	\$ 12,472,779	\$ 12,870,994
Revenues Over Expenditures	\$ 261,320	\$ 1,165,103	\$ 2,274,430	\$ 1,202,863	\$ 176,720

(a) The Authority currently submits payments to the City of Pasadena ("Pasadena"), pursuant to Section 43.0761, Texas Local Government Code, as amended, for the residential developments of Village Grove, Pasadena River Oaks, Santorini Estates, Providence Bayou, Village Grove East, Turtle Creek Subdivisions, and Village Grove East Townhomes ("Pasadena Residential Communities") which are all located within the boundaries of the Authority. The 2018 Assessed Value of the Pasadena Residential Communities is approximately \$268,014,592. The Authority levies and collects taxes on the Pasadena Residential Communities but does not provide water or sewer service to the Pasadena Residential Communities. The residents therein receive their utility services from the City of Pasadena. The Authority remits the entirety of the taxes levied by the Authority on the Pasadena Residential Communities to Pasadena.

Comparison of Connections

Set forth below is a tabular comparison of the total water connections to the Authority's water system during the preceding five fiscal years.

Connections	2018	2017	2016	2015	2014
Water	17,943	17,943	17,929	17,887	17,843
Sewer	17,581	17,567	17,554	17,432	17,395

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the Authority and not of the State of Texas; Harris County, Texas; Houston County, Texas; the Cities of Houston, Pasadena, La Porte, Taylor Lake Village and Webster, Texas; or any entity other than the Authority. The Bonds will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the Authority. The Bonds are further payable from, and secured by, a pledge of Net Revenues, if any, of the System. It is not expected that Net Revenues will ever be sufficient to materially contribute to debt service payments on the Bonds. Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the Authority to collect from the property owners within the Authority taxes levied against all taxable property located within the Authority, or, in the event taxes are not collected and foreclosure proceedings are instituted by the Authority, upon the value of the taxable property with respect to taxes levied by the Authority and by other taxing authorities. The Authority makes no representations that over the life of the Bonds the property within the Authority will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of Authority property is directly related to the economics of the residential and commercial building industry, not only due to general economic conditions, but also due to the particular factors discussed below.

2013 Legislation

House Bill 1324 ("HB 1324"), signed by the Governor and effective September 1, 2013, amended the procedure in Section 49.3076 of the Texas Water Code for excluding land from certain water districts that do not provide water and wastewater service to such land within its boundaries. The prior law allowed the board of directors of a district that has a total area of more than 10,000 acres discretion to exclude land that has not been provided retail utility services. HB 1324 removes the board of directors' discretion and requires exclusion of land in districts containing greater than 10,000 acres if (i) the board of directors receives a written petition from a landowner; and (ii) the land had been taxed by a district for greater than 20 years if the district does not provide retail utility service to the land. The owners of such excluded land are liable for taxes on outstanding tax-supported debt (including debt to refund outstanding debt) on the date of the petition until the excluded land's share of the district's outstanding debt is paid and such land remains in the district for the limited purpose of assessment and collection of such taxes until the excluded land payment is satisfied.

Kaneka Texas Corporation and its affiliated entities ("Kaneka") have a cumulative 2018 taxable value of approximately \$175,635,274 or approximately 3.08% of the Authority's 2018 assessed taxable valuation. On December 27, 2018, Kaneka filed a petition with the Authority to exclude its land from the Authority. On February 20, 2019, the Authority entered into an order with Kaneka providing for the exclusion of the land and for Kaneka's payment of its share of the Authority's outstanding debt. All land owned by Kaneka (approximately 193 acres) has been excluded from the Authority and will not be included on the Appraisal District's record of property ownership as of January 1, 2019.

There are additional landowners that could seek exclusion of its land from the boundaries of the Authority under HB 1324, with such properties, including Kaneka, consisting of approximately \$421,013,788 of 2018 Assessed Value or approximately 7.39% of the Authority's 2018 Certified Assessed Valuation. Furthermore, the City of Pasadena has provided notice to the Authority of its intent to initiate annexation of a portion of the Authority located north of Red Bluff Road into its corporate boundaries, however, no representation has been made by the City of Pasadena as to the provision of retail utility services to the affected tracts. If the City of Pasadena does provide retail utility services, then the landowners of these tracts may be excluded from the Authority. While such parties would be responsible for the debt service taxes on the Bonds and the Outstanding Bonds, the Authority may have to increase its maintenance and operation taxes, subject to voter approval, or its retail utility rates to address any shortfall in funding. Additionally, as of the date of the petition, any excluded land will not be pledged to the security of any additional bonds issued after the date of the petition.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: During the initial stages of the Clear Lake City area development, the area was dependent on the National Aeronautics and Space Administration - Johnson Space Center (“NASA”) and its related industries. Although NASA employment peaked in 1972, the area economy has continued to grow, reflecting a substantial increase in new and diversified industries. However, NASA-related industries continue to be an important part of the area economy, and the Authority cannot predict if there will be any reduction in federal funding for NASA or other curtailment of activity related to NASA.

Tax Collections Limitations

The Authority’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 Authority constitutes a lien in favor of the Authority on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The Authority’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. While the Authority has a lien on taxable property within the Authority for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. See “TAXING PROCEDURES.”

Environmental and Air Quality Regulations

Wastewater treatment, water supply, storm sewer facilities, and construction activities within the Authority 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 Authority. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the Authority.

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—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 Authority, may be required to comply with involve: (1) public water supply systems, (2) wastewater 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 Authority is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The Authority is in the process of preparing its Notice of Intent and Stormwater Management Plan to apply for coverage under the MS4 Permit by the July 23, 2019 deadline. In order to maintain compliance with the MS4 Permit, the Authority continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future.

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 Authority, 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 nationwide 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, which occurred on February 14, 2019. 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 Authority, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Recent Extreme Weather Events

The Clear Lake area experienced an extreme rain event in May 2015 that caused some high-water issues; however, the impact of this rain event on the Authority was minimal as there was no major damage to its water, sanitary, and storm infrastructure and systems. The Greater Houston area, including the Authority, also experienced high levels of rainfall with the arrival of Hurricane Harvey on August 25, 2017, and over the succeeding four days. The Authority received over forty inches of rain within five days. Approximately 175 homes within the Authority incurred water damage, which amount represents less than 1% of the overall connections within the Authority. During the rain event resulting from Hurricane Harvey, one of the Authority's thirty lift stations was overcome by high water and one auxiliary pump was placed at the site after the water had receded to keep up with demand. The wastewater treatment plant incurred minimal damage to its UV disinfection system; however, due to redundancy it never lost disinfection capabilities. Accordingly, the Authority's system did not sustain any significant damage. The Gulf Coast region where the Authority is located is subject to occasional destructive weather events, and there is no assurance that taxable property within the boundaries of the Authority and the Authority's water, sanitary, and storm systems will not suffer damages from such destructive weather events in the future. See "– Potential Impact of Natural Disasters" below.

Specific Flood Type Risks

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

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

Coastal (or Storm Surge) Flood: Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

Potential Impact of Natural Disasters

The Authority is located near 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 Authority, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the Authority or an increase in the Authority'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 Authority 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 Authority would be

adversely affected. There can be no assurance the Authority will not sustain damage from weather-related events.

When requested by a local taxing unit, such as the Authority, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The Authority has not requested a reappraisal of property.

Harris County and City of Houston Floodplain Regulations

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

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

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

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

Future Construction Projects to Help Mitigate Flooding

In 2015, the Authority started the first phase of a five-phase project known as the Exploration Green Detention Ponds that will result in 178 acres of additional detention within the boundaries of the Authority. During the Hurricane Harvey rain event, the first phase of this Exploration Green project was approximately 80% complete, detained an estimated 50 million gallons of water, and helped alleviate flooding in areas that normally flood during lesser rain events. Upon completion of the entire project, Exploration Green will be able to detain over one half of a billion gallons of water. The Authority has commenced plans to install submersible pumps and elevate the control panels for the one lift station that was submerged during Hurricane Harvey and has recently completed measures to protect the UV disinfection equipment at the wastewater treatment plant.

After observing and reviewing the circumstances behind not only the rain event of May 2015 but also Hurricane Harvey's rain event in August 2017, the Authority's infrastructure and systems incurred minimal damage. Further, due to measures that were already in place and the completion of the detention project known as Exploration Green Detention Ponds, the Authority's Board of Directors foresees an even greater amount of detention capacity available to help mitigate future extreme rain events.

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 Authority to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Statutory language authorizing local governments such as the Authority to sue and be sued does not waive

the local government's sovereign immunity from suits for money damages so that in the absence of other waiver of such immunity by the Texas Legislature a default by the Authority in its covenants in the Bond Order may not be reduced to a judgment for money damages. Although the Registered Owners could obtain a judgment against the Authority, such a judgment could not be enforced by a direct levy and execution against the Authority's property. Further, the Registered Owners cannot themselves foreclose on property within the Authority or sell property within the Authority in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be limited further by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the Authority. In this regard, should the Authority file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the Authority to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS – Bankruptcy Limitation to Registered Owners' Rights."

Subject to the requirements of Texas, law, the Authority may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901–946. Under Texas law, the Authority must obtain the approval of the TCEQ prior to filing bankruptcy. In the event of a bankruptcy filing, the rights and remedies of the Registered Owners could be adjusted in accordance with the confirmed plan of adjustment of the Authority's debt.

Future Debt

Following the issuance of the Bonds, \$33,550,400 principal amount of unlimited tax and revenue bonds authorized by the Authority's voters at an election held on November 8, 2016, for the purpose of repairing, rehabilitating and making capital improvements to the Authority's existing water, wastewater and drainage facilities, \$50,322,483 principal amount of unlimited tax refunding bonds authorized by voters at an election held on November 3, 2009, and \$132,000,000 principal amount of unlimited tax refunding bonds authorized by the Authority's voters at an election held on November 8, 2016, will remain authorized but unissued. The Authority reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the Authority. In addition, the Authority has the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. The issuance of additional obligations may increase the Authority's tax rate and adversely affect the security for and the investment quality and value of the Bonds.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

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.

Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax

matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability, or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives, or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives, or litigation.

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

2019 Legislative Session

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The Authority can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

LEGAL MATTERS

Legal Opinions

The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding Bonds of the Authority, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Bond Order. The Authority will also furnish the opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, subject to the matters described under the captions "TAX EXEMPTION."

Bond Counsel was engaged by the Authority. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the factual information contained herein. In its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or sub-captions "SALE AND DISTRIBUTION OF THE BONDS – Securities Laws," "THE BONDS," "THE AUTHORITY – General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX EXEMPTION," and "CONTINUING DISCLOSURE OF INFORMATION" and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and sub-captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinions of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Authority by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Disclosure Counsel. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of

the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriter by the Authority.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Bond Counsel will not express any opinion with respect to any other federal, state, or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, "S" corporations with "subchapter C" earnings and profits, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

No-Litigation Certificate

The Authority will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the Authority contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the Authority or the titles of the then present officers of the Board.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Bonds, and of the Authority 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 Authority 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 EXEMPTION

The delivery of the Bonds is subject to an opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that, assuming continuing compliance by the Authority with the provisions of the Bond Order subsequent to the issuance of the Bonds, pursuant to Section 103 of Internal Revenue Code of 1986, as amended (the "Code"), and existing regulations, published rulings and court decision procedures, interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes and (ii) is not subject to the alternative minimum tax imposed on individuals. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering such opinion, Bond Counsel will rely upon representations and certifications of the Authority made in a certificate pertaining to the use, expenditure, and investment of the proceeds of the Bonds and certain other funds and, as described above, will assume continuing compliance with certain provisions of the Bond Order described herein under the heading "THE BONDS – Special Tax Covenants." Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes from the date of the issuance of the Bonds.

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 Authority has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. 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 its ultimate outcome.

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

Bond Counsel will not express any opinion with respect to any other federal, state, or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, "S" corporations with "subchapter C" earnings and profits, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Proposed Tax Legislation

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds is less than the stated redemption price at maturity (“Original Issue Discount Bonds”). 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 EXEMPTION” generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the Authority 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.

NOT Qualified Tax-Exempt Obligations

The Authority has not designated the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code due to the fact that the reasonably anticipated amount of tax-exempt obligations which will be issued by the Authority during the calendar year 2019, including the Bonds, will exceed \$10,000,000.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The Authority will provide certain updated financial information and operating data to the MSRB.

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

The Authority may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Authority commissions an audit and the audit is timely completed. If not timely completed, then the Authority shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the Authority may be required to employ from time to time pursuant to state law or regulation.

The Authority's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless it changes its fiscal year. If the Authority changes its fiscal year, it will notify the MSRB through EMMA.

Event Notices

The Authority 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 days after the occurrence of an event. The Authority 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-exempt status of the Bonds, or other events affecting the tax-exempt 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 Authority or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the Authority or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the Authority 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the Authority, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Authority, any of which affect bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the Authority, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or

planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the Authority will provide timely notice of any failure by the Authority to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The Authority has agreed to provide the foregoing notices to the MSRB. The Authority is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The Authority has agreed to update information and to provide notices of events only as described above. The Authority 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 Authority 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 Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure covenants, or from any statement made pursuant to its covenants, although holders of the Bonds may seek a writ of mandamus to compel the Authority to comply with its covenants.

The Authority may amend its continuing disclosure covenants to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the Authority, but only if the covenants, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, if nationally recognized bond counsel determines that the amendment will not materially impair the interests of the holders of the Bonds. The Authority may also amend or repeal the covenants if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the Authority so amends the covenants, it has agreed to include with any financial information or operating data next provided in accordance with its covenants 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

Except for the following, during the last five years, the Authority has complied in all material respects with all continuing disclosure covenants made by it in accordance with the Rule:

On March 18, 2014, Standard & Poor’s Rating Services (“S&P”) upgraded its rating on Assured Guaranty Municipal Corp. (“AGM”) to “AA” from “AA-”. A Material Event Notice for the Authority’s bonds affected by the upgrade was filed by the Authority on January 5, 2017, and the Authority has established procedures to monitor and timely report rating changes in the future.

On March 17, 2016, the Authority defeased \$1,625,000 of the Authority’s \$5,270,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2009. On December 21, 2016, the Authority filed a material event notice of such defeasance and has established procedures to report timely such defeasances in the future.

SOURCES OF INFORMATION

General

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

Experts

Bond Counsel has reviewed the information appearing in this Official Statement under the captions "THE BONDS," "TAXING PROCEDURES," "THE AUTHORITY – General," "LEGAL MATTERS – Legal Opinions," "TAX EXEMPTION," and "CONTINUING DISCLOSURE OF INFORMATION." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor conducted an investigation of the affairs of the Authority for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE AUTHORITY" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Harris County Appraisal District and the Authority's Tax Assessor/Collector, and has been included in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Updating of Official Statement

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

Certification as to Official Statement

The Authority, 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, the information, statements and descriptions pertaining to the Authority 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 Authority, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the Authority has made no independent

investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Concluding Statement

The information set forth herein has been obtained from the Authority’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 such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provision 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 Clear Lake City Water Authority as of the date shown on the cover page hereof.

/s/ John B. Branch
President, Board of Directors
Clear Lake City Water Authority

ATTEST:

/s/ W. Thomas Morrow
Secretary, Board of Directors
Clear Lake City Water Authority

APPENDIX A
Financial Statements of the Authority

CLEAR LAKE CITY WATER AUTHORITY

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clear Lake City Water Authority
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Clear Lake City Water Authority (the "Authority"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 30, 2019

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Management's discussion and analysis of Clear Lake City Water Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2018.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities by \$105,192,217 as of September 30, 2018. This compares with assets and deferred outflows of resources exceeding liabilities by \$94,823,498 as of September 30, 2017. A portion of the Authority's assets reflects its net investment in capital assets (buildings and equipment as well as the water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding). The following is a comparative analysis of government-wide changes in net position:

CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 50,132,962	\$ 42,488,645	\$ 7,644,317
Capital Assets (Net of Accumulated Depreciation)	137,909,951	131,143,513	6,766,438
Total Assets	\$ 188,042,913	\$ 173,632,158	\$ 14,410,755
Deferred Outflows of Resources	\$ 62,188	\$ 80,890	\$ (18,702)
Bonds Payable	\$ 75,954,868	\$ 75,350,975	\$ (603,893)
Other Liabilities	6,958,016	3,538,575	(3,419,441)
Total Liabilities	\$ 82,912,884	\$ 78,889,550	\$ (4,023,334)
Net Position:			
Net Investment in Capital Assets	\$ 85,022,813	\$ 70,567,185	\$ 14,455,628
Restricted	4,581,994	8,893,779	(4,311,785)
Unrestricted	15,587,410	15,362,534	224,876
Total Net Position	\$ 105,192,217	\$ 94,823,498	\$ 10,368,719

The following table provides a summary of the Authority's operations for the years ended September 30, 2018, and September 30, 2017. The Authority's net position increased by \$10,368,719 accounting for a 10.9% growth in net position. This compares with an increase of \$7,912,919 in the prior year. Comparative data is presented below from summary information in the Statement of Activities:

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 14,915,407	\$ 14,141,901	\$ 773,506
Charges for Services	12,442,571	11,661,637	780,934
Other Revenues	2,080,551	1,196,048	884,503
Total Revenues	\$ 29,438,529	\$ 26,999,586	\$ 2,438,943
Expenses for Services	19,069,810	19,086,667	16,857
Change in Net Position	\$ 10,368,719	\$ 7,912,919	\$ 2,455,800
Net Position, Beginning of Year	94,823,498	86,910,579	7,912,919
Net Position, End of Year	\$ 105,192,217	\$ 94,823,498	\$ 10,368,719

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUNDS

The Authority's combined fund balances as of September 30, 2018, were \$42,494,080, an increase of \$4,238,773 from the prior year.

The General Fund fund balance increased by \$261,320, primarily due to service, tax and grant revenues exceeding operating expenditures.

The Debt Service Fund fund balance decreased by \$4,334,332, primarily due to the structure of the Authority's outstanding debt and the use of available funds to redeem portions of the Authority's Series 2011 and 2011A bonds.

The Capital Projects Fund fund balance increased by \$8,311,785, primarily due to bond proceeds received in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$1,239,767 more than budgeted revenues primarily due to higher service and grant revenues than estimated and actual expenditures were \$1,213,872 more than budgeted expenditures primarily due to higher than expected capital outlay related to the Southeast Houston Water Purification Plant rehabilitation which was offset by lower than anticipated bulk water purchases (due to a credit from the City of Houston), payroll, and repairs and maintenance costs.

CAPITAL ASSETS

The Authority manages its system of sanitary sewer laterals and trunks using a condition assessment methodology and accounts for these items using the modified approach. The system consists of sewer laterals and trunk lines. The system is rated on a numerical condition scale ranging from 1 (brand-new condition with 40 years of expected life) to 5 (a severe deficiency which needs immediate correction and the expected life is 0 years). It is the Authority's policy to keep 75 percent of the system at a level 3 or better. The most recent conditional assessment shows that the condition of the Authority's sanitary sewer lines is in accordance with the Authority's policy.

The Authority's capital assets as of September 30, 2018, total \$137,909,951 (net of accumulated depreciation). Certain capital asset activity during the current fiscal year included the following:

- Water, sewer and drainage system rehabilitation
- Exploration Green Detention Pond, Phase 1B
- Replacement of 24" waterline on Space Center Boulevard
- Vehicles and pumps, motors and other equipment

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

CAPITAL ASSETS (Continued)

Capital Assets At Year-End, Net of Accumulated Depreciation			Change Positive (Negative)
	2018	2017	
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 6,685,837	\$ 6,685,837	\$
Sanitary Sewer Laterals and Trunks	59,897,552	57,722,383	2,175,169
Construction in Progress	8,899,184	5,214,640	3,684,544
Capital Assets, Net of Accumulated Depreciation:			
Buildings	576,011	615,051	(39,040)
Water System	24,174,192	24,736,901	(562,709)
Sanitary Sewer System	8,430,804	8,134,274	296,530
Drainage System	27,981,579	26,854,268	1,127,311
Equipment	1,264,792	1,180,159	84,633
Total Net Capital Assets	\$ 137,909,951	\$ 131,143,513	\$ 6,766,438

LONG-TERM DEBT ACTIVITY

As of September 30, 2018, the Authority had total bond debt payable of \$76,375,000. The changes in the debt position of the Authority during the fiscal year ended September 30, 2018, are summarized as follows:

Bond Debt Payable, October 1, 2017	\$ 75,835,000
Add: Bonds Issued - Series 2017A	13,800,000
Less: Bond Principal Paid	13,260,000
Bond Debt Payable, September 30, 2018	\$ 76,375,000

Standard & Poor's assigned an underlying rating of "AA-" to the Authority's 2014 Refunding and prior bond issues which are outstanding, and Moody's assigned an underlying rating of "Aa3" to the Series 2017 and 2017A bonds. The Series 2017 bonds carry an insured rating of "Baa2" (Moody's) by virtue of bond insurance issued by National Public Finance Guarantee Corporation. The Series 2017A bonds carry an insured rating of "A2" (Moody's), "AA" (S&P) and "AA+" (Kroll) by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Clear Lake City Water Authority, 900 Bay Area Blvd., Houston, TX 77058-2604.

CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 1,297,710	\$ 87,875
Investments	16,040,776	4,569,215
Receivables:		
Property Taxes	40,452	186,544
Penalty and Interest on Delinquent Taxes		
Service Accounts	1,315,153	
Other	120,036	
Due from Other Funds	75,073	
Inventory	114,128	
Prepaid Costs	571,440	
Due from Other Governmental Units	919,695	
Prepaid Lease		
Land		
Sanitary Sewer Laterals and Trunks		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 20,494,463	\$ 4,843,634
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,494,463	\$ 4,843,634

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments*</u>	<u>Statement of Net Position</u>
\$ 4,334,006	\$ 5,719,591	\$	\$ 5,719,591
19,859,030	40,469,021		40,469,021
	226,996		226,996
		80,000	80,000
	1,315,153		1,315,153
	120,036		120,036
	75,073	(75,073)	
	114,128		114,128
190	571,630		571,630
	919,695		919,695
		596,712	596,712
		6,685,837	6,685,837
		59,897,552	59,897,552
		8,899,184	8,899,184
		<u>62,427,378</u>	<u>62,427,378</u>
<u>\$ 24,193,226</u>	<u>\$ 49,531,323</u>	<u>\$ 138,511,590</u>	<u>\$ 188,042,913</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 62,188</u>	<u>\$ 62,188</u>
<u>\$ 24,193,226</u>	<u>\$ 49,531,323</u>	<u>\$ 138,573,778</u>	<u>\$ 188,105,101</u>

* See Reconciliation on page 12 and Note 2

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

CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 1,012,813	\$ 43,915
Accrued Interest Payable		
Due to Other Governmental Units	3,291,190	
Due to Other Funds		74,883
Security Deposits	1,199,762	
Long-term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 5,503,765	\$ 118,798
DEFERRED INFLOWS OF RESOURCES		
Property Tax Revenues	\$ 40,452	\$ 186,544
FUND BALANCES		
Nonspendable:		
Inventory	\$ 114,128	\$
Prepaid Costs	571,440	
Restricted for Authorized Construction		
Restricted for Debt Service		4,538,292
Committed for Sick Leave Obligation	614,364	
Committed for Unbudgeted Major Repairs of Facilities	250,000	
Committed for Emergencies	820,000	
Committed for Water Operations Building	924,000	
Committed for SEWPP Rehabilitation	500,000	
Unassigned	11,156,314	
TOTAL FUND BALANCES	\$ 14,950,246	\$ 4,538,292
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 20,494,463	\$ 4,843,634
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments*</u>	<u>Statement of Net Position</u>
\$ 1,187,494	\$ 2,244,222	\$	\$ 2,244,222
		222,842	222,842
	3,291,190		3,291,190
190	75,073	(75,073)	
	1,199,762		1,199,762
		4,990,000	4,990,000
		70,964,868	70,964,868
<u>\$ 1,187,684</u>	<u>\$ 6,810,247</u>	<u>\$ 76,102,637</u>	<u>\$ 82,912,884</u>
<u>\$ - 0 -</u>	<u>\$ 226,996</u>	<u>\$ (226,996)</u>	<u>\$ - 0 -</u>
\$	\$ 114,128	\$ (114,128)	\$
	571,440	(571,440)	
23,005,542	23,005,542	(23,005,542)	
	4,538,292	(4,538,292)	
	614,364	(614,364)	
	250,000	(250,000)	
	820,000	(820,000)	
	924,000	(924,000)	
	500,000	(500,000)	
	11,156,314	(11,156,314)	
<u>\$ 23,005,542</u>	<u>\$ 42,494,080</u>	<u>\$ (42,494,080)</u>	<u>\$ - 0 -</u>
<u>\$ 24,193,226</u>	<u>\$ 49,531,323</u>		
		\$ 85,022,813	\$ 85,022,813
		4,581,994	4,581,994
		15,587,410	15,587,410
		<u>\$ 105,192,217</u>	<u>\$ 105,192,217</u>

* See Reconciliation on page 12 and Note 2

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

**CLEAR LAKE CITY WATER AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018**

Total Fund Balances - Governmental Funds \$ 42,494,080

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

Prepaid leases are recorded in the Statement of Net Position and amortized over the term of the lease. 596,712

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 62,188

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 137,909,951

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the Authority. 306,996

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

Accrued Interest Payable	\$ (222,842)	
Bonds Payable	<u>(75,954,868)</u>	<u>(76,177,710)</u>

Total Net Position - Governmental Activities \$ 105,192,217

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

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CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

REVENUES	<u>General Fund</u>	<u>Debt Service Fund</u>
Property Taxes	\$ 2,757,138	\$ 12,138,971
Water Service	6,839,175	
Wastewater Service	4,601,452	
Penalty and Interest	86,818	110,811
Tap Connection and Inspection Fees	804,315	
Impact Fees		
Grant Revenues	454,819	
Investment Revenues	222,906	122,107
Miscellaneous Revenues	490,314	15,117
TOTAL REVENUES	<u>\$ 16,256,937</u>	<u>\$ 12,387,006</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Bulk Water Purchases	\$ 1,928,777	\$
Payroll	4,708,596	279,188
Utilities	865,579	
Repairs and Maintenance	867,551	8,754
Professional Fees	1,139,488	151,627
Depreciation and Amortization		
Other	2,673,104	99,768
Capital Outlay	3,812,522	
Debt Service:		
Bond Issuance Costs		
Bond Principal		13,260,000
Bond Interest		2,922,001
TOTAL EXPENDITURES/EXPENSES	<u>\$ 15,995,617</u>	<u>\$ 16,721,338</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ 261,320</u>	<u>\$ (4,334,332)</u>
OTHER FINANCING SOURCES (USES)		
Long-Term Debt Issued	\$	\$
Bond Premium		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCES	<u>\$ 261,320</u>	<u>\$ (4,334,332)</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2017	<u>14,688,926</u>	<u>8,872,624</u>
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2018	<u>\$ 14,950,246</u>	<u>\$ 4,538,292</u>

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

Capital Projects Fund	Total	Adjustments*	Statement of Activities
\$	\$ 14,896,109	\$ 19,298	\$ 14,915,407
	6,839,175		6,839,175
	4,601,452		4,601,452
	197,629		197,629
	804,315		804,315
467,843	467,843		467,843
	454,819		454,819
307,445	652,458		652,458
	505,431		505,431
<u>\$ 775,288</u>	<u>\$ 29,419,231</u>	<u>\$ 19,298</u>	<u>\$ 29,438,529</u>
\$	\$ 1,928,777	\$	\$ 1,928,777
	4,987,784		4,987,784
	865,579		865,579
	876,305		876,305
	1,291,115		1,291,115
		3,127,465	3,127,465
	2,772,872		2,772,872
6,041,381	9,853,903	(9,853,903)	
418,929	418,929		418,929
	13,260,000	(13,260,000)	
	2,922,001	(121,017)	2,800,984
<u>\$ 6,460,310</u>	<u>\$ 39,177,265</u>	<u>\$ (20,107,455)</u>	<u>\$ 19,069,810</u>
<u>\$ (5,685,022)</u>	<u>\$ (9,758,034)</u>	<u>\$ 20,126,753</u>	<u>\$ 10,368,719</u>
\$ 13,800,000	\$ 13,800,000	\$ (13,800,000)	\$
196,807	196,807	(196,807)	
<u>\$ 13,996,807</u>	<u>\$ 13,996,807</u>	<u>\$ (13,996,807)</u>	<u>\$ - 0 -</u>
\$ 8,311,785	\$ 4,238,773	\$ (4,238,773)	\$
		10,368,719	10,368,719
<u>14,693,757</u>	<u>38,255,307</u>	<u>56,568,191</u>	<u>94,823,498</u>
<u>\$ 23,005,542</u>	<u>\$ 42,494,080</u>	<u>\$ 62,698,137</u>	<u>\$ 105,192,217</u>

* See Reconciliation on page 15 and Note 2

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

CLEAR LAKE CITY WATER AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net Change in Fund Balances - Governmental Funds	\$ 4,238,773
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	19,298
Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(3,127,465)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	9,853,903
Governmental funds report bond premiums as other financing uses in the year paid. However, in the Statement of Net Position, bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(196,807)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	13,260,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	121,017
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	<u>(13,800,000)</u>
Change in Net Position - Governmental Activities	<u>\$ 10,368,719</u>

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. CREATION OF AUTHORITY

The Clear Lake City Water Authority was created May 6, 1963, by Statute 8280-280, 58th Legislature of the State of Texas. Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, among other powers, the Authority is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service and storm sewer drainage. Although the Authority is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the Authority and to provide irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the Authority, to date it has chosen not to exercise any of these powers. The Authority comprises approximately 15,837 acres in Harris County, Texas, located in the area of NASA's Johnson Space Center and owns approximately two acres in Houston County, Texas. The Authority is under the oversight of the Texas Commission on Environmental Quality (the "Commission").

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

The Authority is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether 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 Authority 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 Authority's financial statement as component units.

Financial Statement Presentation

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The Authority has three governmental funds and considers them to be major funds.

General Fund - To account for resources not required to be accounted for in another fund, maintenance taxes, customer service revenues, operating costs and general expenditures.

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

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

Basis of Accounting

The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of September 30, 2018, the Debt Service Fund owed the General Fund \$74,833 for operating expenses and the Capital Projects Fund owed the General Fund \$190.

Capital Assets

The accounting treatment of capital assets depends on whether the assets are reported in the government-wide or fund financial statements. Capital assets are not reported as assets in governmental funds but are reported as assets in the government-wide statement of net position. The Authority manages its system of sanitary sewer laterals and trunks using a condition assessment methodology and accounts for this system using the modified approach. The remaining capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is reported in the government-wide Statement of Activities. In implementing GASB Statement No. 34, the Authority estimated historical cost of infrastructure assets beginning with the creation of the Authority. The Authority uses a capitalization threshold of \$5,000. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lines:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is recorded on the average cost basis. Average cost is calculated on the average cost of each specific item during the fiscal year. The Authority's inventory balance as of September 30, 2018, was \$114,128.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

For employees of the Authority, a pension plan has been established and is managed by an independent plan administrator (see Note 7). The Internal Revenue Service has determined that the directors are considered employees for federal payroll tax purposes only. Directors do not participate in the pension plan.

Measurement Focus

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

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Authority. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The Board has written policies committing the General Fund fund balance as follows - \$250,000 for unbudgeted major repairs of facilities, \$924,000 for the construction of a new water operations building, \$500,000 for construction costs related to the Southeast Houston Water Purification Plant and \$820,000 for emergencies. See Note 8 for information related to the sick leave fund balance commitment.

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 Authority has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3. LONG-TERM DEBT

	Series 2009	Refunding Series 2009
Amounts Outstanding - September 30, 2018	\$ 490,000	\$ 1,425,000
Interest Rates	3.25%	4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2019	March 1, 2019/2021 and September 1, 2021
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2017*	March 1, 2019*
	Refunding Series 2010	Series 2011
Amounts Outstanding - September 30, 2018	\$ 805,000	\$ 3,420,000
Interest Rates	4.00% - 4.25%	3.00% - 4.40%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2021	March 1, 2019/2029
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2018*	March 1, 2019*

* Subject to redemption as a whole, or from time to time in part, in integral multiples of \$5,000, upon payment of a redemption price equal to the principal amount thereof together with interest, if any, accrued thereon, from the most recent interest payment date to the redemption date.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2011A	Refunding Series 2012	Series 2012
Amounts Outstanding – September 30, 2018	\$ 3,205,000	\$ 720,000	\$ 5,170,000
Interest Rates	3.00% - 4.25%	3.00%	3.00% - 3.625%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2029	March 1, 2019/2020	March 1, 2019/2035
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2019*	Non-Callable	March 1, 2020*

	Refunding Series 2012A	Series 2013	Series 2013A
Amounts Outstanding – September 30, 2018	\$ 3,540,000	\$ 3,835,000	\$ 21,000,000
Interest Rates	3.00% - 3.625%	3.00% - 4.25%	4.00% - 5.25%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2035	March 1, 2019/2038	March 1, 2023/2038
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2020*	March 1, 2021*	March 1, 2022*

* Or any date thereafter, as a whole or from time to time in part, at a price equal to the par value thereof, plus accrued interest to the date fixed for redemption. Series 2012 term bonds due March 1, 2025, are subject to mandatory redemption beginning on March 1, 2024. Series 2012A Refunding term bonds due March 1, 2026, March 1, 2028, March 1, 2030, March 1, 2032, and March 1, 2035, are subject to mandatory redemption beginning on March 1, 2024, March 1, 2027, March 1, 2029, March 1, 2031, and March 1, 2033, respectively. Series 2013 term bonds due March 1, 2023, March 1, 2025, March 1, 2029, March 1, 2031, March 1, 2033, March 1, 2035, and March 1, 2038, are subject to mandatory redemption beginning on March 1, 2022, March 1, 2024, March 1, 2026, March 1, 2030, March 1, 2032, March 1, 2034, and March 1, 2036, respectively. Series 2013A term bonds due March 1, 2033, and March 1, 2038, are subject to mandatory redemption beginning on March 1, 2032, and March 1, 2036, respectively.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

	Refunding Series 2014	Refunding Series 2016
Amounts Outstanding – September 30, 2018	\$ 3,535,000	\$ 4,825,000
Interest Rates	2.50% - 4.00%	1.45%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2022	March 1, 2019/2022
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	Non-Callable	Non-Callable
	Series 2017	Series 2017A
Amounts Outstanding – September 30, 2018	\$ 11,175,000	\$ 13,230,000
Interest Rates	2.00% - 3.375%	2.00% - 3.125%
Maturity Dates – Serially Beginning/Ending	March 1, 2019/2038	March 1, 2019/2038
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2025*	March 1, 2025*

* Or any date thereafter, as a whole or from time to time in part, at a price equal to the par value thereof, plus accrued interest to the date fixed for redemption.

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

	October 1, 2017	Additions	Retirements	September 30, 2018
Bonds Payable	\$ 75,835,000	\$ 13,800,000	\$ 13,260,000	\$ 76,375,000
Unamortized Discounts	(1,166,275)		(94,446)	(1,071,829)
Unamortized Premiums	682,250	196,807	227,360	651,697
Bonds Payable, Net	\$ 75,350,975	\$ 13,996,807	\$ 13,392,914	\$ 75,954,868
		Amount Due Within One Year		\$ 4,990,000
		Amount Due After One Year		70,964,868
		Bonds Payable, Net		\$ 75,954,868

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

As of September 30, 2018, the Authority had authorized but unissued bonds in the amount of \$74,200,400 for utility facilities and \$182,322,483 for refunding bonds.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,990,000	\$ 2,567,356	\$ 7,557,356
2020	4,750,000	2,435,491	7,185,491
2021	5,405,000	2,312,475	7,717,475
2022	4,375,000	2,177,914	6,552,914
2023	3,050,000	2,067,367	5,117,367
2024-2028	17,305,000	8,473,288	25,778,288
2029-2033	17,870,000	5,015,001	22,885,001
2034-2038	18,630,000	1,679,135	20,309,135
	<u>\$ 76,375,000</u>	<u>\$ 26,728,027</u>	<u>\$ 103,103,027</u>

The bonds of the Authority are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the Authority, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the Authority's waterworks and sanitary sewer system.

The Bond Orders require that the Authority levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

During the year ended September 30, 2018, the Authority levied an ad valorem debt service tax and maintenance tax as follows:

	<u>2017 Appraised Valuation</u>	<u>Tax Rates Per \$100 Of Valuation</u>	<u>Tax Levy</u>
Debt Service Tax Levy		\$0.22	\$ 12,224,490
Maintenance Tax Levy		<u>\$0.05</u>	<u>2,778,293</u>
Totals	<u>\$ 5,556,586,361</u>	<u>\$0.27</u>	<u>\$ 15,002,783</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3. LONG-TERM DEBT (Continued)

On August 14, 1982, the voters of the Authority approved the levy and collection of a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the Authority. For Harris County Water Control and Improvement District No. 75 (“District No. 75”), at the date consolidation was voted, a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the respective geographical area of the original district was voted on and approved. A maintenance tax is to be used by the General Fund to pay expenditures of operating and maintaining the Authority’s waterworks, sanitary sewer, and drainage system. District No. 75 has paid off the bonds that existed prior to the merger with Clear Lake City Water Authority. The tax rate is now uniform throughout the Authority.

The Authority’s tax calendar is as follows:

- Levy Date - October 1, as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Upon receipt but not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The Authority is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the Authority. The information is of the general type included in the annual financial report and must be filed within six months after the end of each fiscal year of the Authority.

The bond orders state that so long as any of the bonds or coupons remain outstanding, the Authority covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risks, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions.

The Authority has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds be rebated to the federal government, within the meaning of Section 148(f) of the Internal Revenue Code. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the Authority’s deposits was \$5,719,591 and the bank balance was \$6,139,276. The Authority was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2018, as listed below:

	Cash
GENERAL FUND	\$ 1,297,710
DEBT SERVICE FUND	87,875
CAPITAL PROJECTS FUND	4,334,006
TOTAL DEPOSITS	\$ 5,719,591

Investments

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

The Authority invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures its portfolio assets at amortized cost. As a result, the Authority also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of September 30, 2018, the Authority had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 16,040,776	\$ 16,040,776
<u>DEBT SERVICE FUND</u>		
TexPool	4,569,215	4,569,215
<u>CAPITAL PROJECTS FUND</u>		
TexPool	19,859,030	19,859,030
TOTAL INVESTMENTS	\$ 40,469,021	\$ 40,469,021

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2018, the Authority's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investments in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

Restrictions

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018 is as follows:

	October 1, 2017	Increases	Decreases	September 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 6,685,837	\$	\$	\$ 6,685,837
Sanitary Sewer Laterals and Trunks	57,722,383	2,175,169		59,897,552
Construction in Progress	<u>5,214,640</u>	<u>9,853,903</u>	<u>6,169,359</u>	<u>8,899,184</u>
Total Capital Assets Not Being Depreciated	<u>\$ 69,622,860</u>	<u>\$ 12,029,072</u>	<u>\$ 6,169,359</u>	<u>\$ 75,482,573</u>
Capital Assets Subject to Depreciation				
Buildings	\$ 762,487	\$	\$	\$ 762,487
Water System	53,561,621	729,375		54,290,996
Sanitary Sewer System	18,177,277	666,510		18,843,787
Drainage System	54,135,933	2,128,246		56,264,179
Equipment	<u>3,020,045</u>	<u>470,059</u>		<u>3,490,104</u>
Total Capital Assets Subject to Depreciation	<u>\$ 129,657,363</u>	<u>\$ 3,994,190</u>	<u>\$ - 0 -</u>	<u>\$ 133,651,553</u>
Less Accumulated Depreciation				
Buildings	\$ 147,436	\$ 39,040	\$	\$ 186,476
Water System	28,824,720	1,292,084		30,116,804
Sanitary Sewer System	10,043,003	369,980		10,412,983
Drainage System	27,281,665	1,000,935		28,282,600
Equipment	<u>1,839,886</u>	<u>385,426</u>		<u>2,225,312</u>
Total Accumulated Depreciation	<u>\$ 68,136,710</u>	<u>\$ 3,087,465</u>	<u>\$ - 0 -</u>	<u>\$ 71,224,175</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 61,520,653</u>	<u>\$ 906,725</u>	<u>\$ - 0 -</u>	<u>\$ 62,427,378</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 131,143,513</u>	<u>\$ 12,935,797</u>	<u>\$ 6,169,359</u>	<u>\$ 137,909,951</u>

The sanitary sewer laterals and trunk lines are accounted for using the modified approach. The condition of the Authority's sanitary sewer lateral and trunk system is determined using a condition assessment methodology. The Authority uses a numerical condition scale ranging from 1.00 (new) to 5.00 (severe deficiency with no useful life remaining). It is the Authority's policy to keep 75% of the system in level 3.00 or better condition. The condition assessments as of September 30, 2018, September 30, 2017, and September 30, 2016, were 2.10, 2.27, and 2.20, respectively.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6. CAPITAL ASSETS (Continued)

The following is a summary of the condition levels of the individual subdivision sanitary sewer laterals and trunks as of September 30, 2018:

	Condition	Sewer Laterals and Trunks in Linear Feet
1.00-1.99	New Condition	599,078
2.00-2.99	Minor Deficiencies	321,270
3.00-3.99	Serious Deficiencies	71,466
4.00-4.99	Very Serious Deficiencies	29,533
5.00	Severe Deficiencies	21,252
TOTAL		1,042,599

Comparison of Estimated to Actual Maintenance/Preservation Costs

	Estimated	Actual
2018	\$ 5,237,080	\$ 5,336,300
2017	\$ 5,366,708	\$ 6,138,737
2016	\$ 4,316,813	\$ 5,299,854
2015	\$ 3,425,636	\$ 4,226,380
2014	\$ 4,988,021	\$ 3,317,115

NOTE 7. PENSION PLAN

On October 1, 1991, the Authority established a defined contribution plan (the “Plan”) for its eligible full-time employees. The Plan is a qualified pension plan under Section 401(a) of the Internal Revenue Code and is administered by International City Management Association (“ICMA”). Eligibility requirements include full-time employment status and completion of one year of service. The Plan requires the Authority to contribute, on behalf of each employee, 10.0% of the employee’s earnings, as defined in the Plan agreement.

NOTE 8. SICK LEAVE

The Authority has a sick leave policy whereby sick leave accrues at the rate of one day per month for each employee. Retiring employees and those terminated without cause may be paid for their unused sick leave upon termination of employment. The Authority has designated an investment account to cover the potential cost of this benefit to its employees; therefore, no liability has been recorded in the financial statements. Sick leave is recorded as an expenditure only when paid. As of the balance sheet date, \$614,364 of the General Fund fund balance has been committed for this future obligation.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. EXCLUSION CONTRACTS AND SERVICE AGREEMENTS

On May 12, 1999, the Authority executed two contracts, an Exclusion Contract and a Service Agreement, both with Harris County Water Control & Improvement District No. 156 (“District No. 156”). The contract was later amended on October 16, 2000, and December 9, 2010. On March 10, 1999, the Texas Commission on Environmental Quality (“the Commission”) entered an order creating District No. 156. On May 1, 1999, District No. 156 held elections confirming creation of District No. 156 and authorizing the Exclusion Contract. The Exclusion Contract provides for the exclusion of 142.368 acres of land from the Authority and for the payment of a pro rata share of the Authority’s debt service on the excluded land. The term of the Exclusion Contract is 40 years. The agreement calls for District No. 156 to account for monies derived from taxes and investment earnings in an account titled the Exclusion Contract Fund. The Authority assigned to District No. 156 all rights and duties with respect to the Bay Oaks Sales and Lease of Facilities Agreement and the Pine Brook Sales and Lease of Facilities Agreement that provide for development of utilities within District No. 156. The Authority further agreed to provide water and sanitary sewer utility service to District No. 156 at a cost not to exceed one and a half times the cost charged to customers in the Authority. On or before March 1 each year, District No. 156 is to pay the Authority from its tax proceeds based upon the following schedule unless altered by later refundings as provided for in the Exclusion Contract.

<u>Year</u>	<u>Allocable Debt</u>
2019	\$ 608
2020	296
2021	301
2022	<u>308</u>
TOTAL	<u>\$ 1,513</u>

The Service Agreement has a term of 40 years. District No. 156 will provide for the construction of facilities that will connect to the Authority’s facilities and the facilities will be fully integrated into the utility system of the Authority. Service personnel of the Authority will provide services to District No. 156 customers on the same basis as Authority customers. The Authority will bill and collect tap and other fees in accordance with District No. 156’s rate order and the Authority will charge District No. 156 for those services at the cost of providing the services. The Authority will provide service to District No. 156 customers on the same basis as Authority customers under the terms of the Authority’s rate order. For the higher amount of \$500 or \$10 per connection billed, the Authority’s service personnel will provide services to the customers of District No. 156 as spelled out in the contract. In addition, District No. 156 will pay for water and sanitary sewer service on a per-connection basis of 150% of the fees charged by the Authority based upon its rate order.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. EXCLUSION CONTRACTS AND SERVICE AGREEMENTS (Continued)

On December 24, 2014, the Authority executed two contracts, an Exclusion Contract and a Service Agreement, both with Harris County Water Control & Improvement District No. 161 (“District No. 161”). On November 4, 2014, District No. 161 held elections confirming creation of District No. 161 and authorizing the Exclusion Contract. The Exclusion Contract provides for the exclusion of approximately 411 acres of land from the Authority and for the payment of a pro rata share of the Authority’s debt service on the excluded land. The term of the Exclusion Contract is 40 years. The agreement calls for District No. 161 to account for monies derived from taxes and investment earnings in an account titled the Exclusion Contract Fund. The Authority further agreed to provide water and sanitary sewer utility service to District No. 161 at a cost not to exceed one and a half times the cost charged to customers in the Authority. On or before March 1 each year, District No. 161 is to pay the Authority from its tax proceeds based upon the following schedule unless altered by later refundings as provided for in the Exclusion Contract.

<u>Year</u>	<u>Allocable Debt</u>
2019	\$ 6,158
2020	5,782
2021	6,294
2022	5,137
2023	3,683
2024	3,689
2025	3,696
2026	3,704
2027	3,706
2028	3,717
2029	3,717
2030	3,720
2031	3,722
2032	3,734
2033	3,740
2034	3,758
2035	3,764
2036	2,051
2037	2,058
2038	<u>2,070</u>
TOTAL	<u>\$ 77,900</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 9. EXCLUSION CONTRACTS AND SERVICE AGREEMENTS (Continued)

The Service Agreement has a term of 40 years. District No. 161 will provide for the construction of facilities that will connect to the Authority's facilities and the facilities will be fully integrated into the utility system of the Authority. Service personnel of the Authority will provide services to District No. 161 customers on the same basis as Authority customers. The Authority will bill and collect tap and other fees in accordance with District No. 161's rate order and the Authority will charge District No. 161 for those services at the cost of providing the services.

The Authority will provide service to District No. 161 customers on the same basis as Authority customers under the terms of the Authority's rate order. For the higher amount of \$500 or \$10 per connection billed, the Authority's service personnel will provide services to the customers of District No. 161 as spelled out in the contract. In addition, District No. 161 will pay for water and sanitary sewer service on a per-connection basis of 150% of the fees charged by the Authority based upon its rate order.

NOTE 10. COST SHARING WATER PROJECT CONTRACT

On February 24, 1987, the Authority executed a Cost Sharing Water Project Contract with the City of Houston, Texas, and the City of Nassau Bay, Texas. The agreement provided for the equitable sharing of capacity in Houston's Southeast Water Purification Plant (the "Plant"). The Agreement was amended September 2, 1988, to allow purchase of additional capacity to serve the Johnson Space Center. On February 16, 1998, the agreement was further amended with the Second Amendment to Cost Sharing Water Project Contract ("Second Amendment Agreement"). This agreement provided for the Authority to purchase additional capacity in the Plant from the City of Galveston and the termination of the Second Amendment Agreement should the parties to the agreement fail to secure additional capacity in the Plant from the City of Galveston. The Authority's and City of Nassau Bay's capacity in the Plant were then as follows:

- Demand Allocation Factor - 8.7 million gallons per day (mgpd) of a total capacity of 80 mgpd. (available to the Authority and Johnson Space Center only)
- Pumping Allocation Factor - 15 mgpd of a total capacity of 225 mgpd.

On April 28, 1998, the Authority executed a Water Capacity Purchase and Sale Agreement with the Gulf Coast Water Authority and the City of Galveston, Texas. In accordance with the terms of the agreement the City of Galveston's 16 mgpd of demand allocation per day capacity in the Plant was allocated to various parties, including the Authority, with the Authority's share being 5.0 mgpd. With this allocation the Authority's total capacity was 13.7 mgpd of demand allocation or 17.125% of the total capacity. The City of Galveston's pumping allocation was 18.4 mgpd. The Authority obtained 5.75 mgpd of this capacity, giving the Authority 20.75 mgpd of the pumping allocation of the Plant or 9.25% of the total pumping capacity.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10. COST SHARING WATER PROJECT CONTRACT (Continued)

The initial construction, phase 1, was completed in 1987 with total plant capacity being 80 mgpd. In 2001, phase 2 was completed, increasing plant capacity from 80 mgpd to 120 mgpd. In 2011, phase 3 was completed, increasing capacity from 120 mgpd to 200 mgpd. The Authority's allocation of this expanded capacity is 6.45 mgpd. In addition, the Authority acquired 1.0 mgpd capacity in the Plant from the La Porte Area Water Authority and also acquired 0.5 mgpd capacity in the Plant from Harris County Municipal Utility District No. 55. With these acquisitions, the Authority owns a total demand capacity of 22.05 mgpd in the Plant, which includes demand capacity of 1.60 mgpd for the Johnson Space Center, along with additional allocations for pumping and distribution.

On March 31, 2016, the Authority executed a Replacement Water Line Capacity and Cost Sharing Agreement with the City of Houston and co-participants to replace an existing 42-inch line built in the early 1970s running along Old Galveston Road (State Highway 3). Various lines will provide participants with line capacity in the New Galveston Line Project. The agreement is for the preliminary design and after further amendments, construction through 2021 of a network of new water mains connecting the Southeast Water Purification Plant to the co-participant take points.

NOTE 11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, mobile equipment, general liability, boiler and machinery, errors and omissions, public employee dishonesty, automobile, and workers compensation coverage. The Authority, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 12. DRAINAGE PARTICIPATION AGREEMENT

Effective May 8, 2012, the Authority entered into a Drainage Participation Agreement with the City of Houston, Texas (the "City"). The Authority will at all times operate and maintain all existing and future drainage facilities constructed by the Authority. The Authority will also construct improvements to that portion of the drainage facilities it owns and which it normally and historically has maintained and operated as is necessary in the sole discretion of the Authority to provide adequate drainage within the Authority. The Authority will not be required to design and construct drainage facilities for service beyond the Authority's jurisdiction. The City agrees to continue to maintain, operate, and improve that portion of the drainage facilities it owns and which it normally and historically has maintained, operated, or controlled.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12. DRAINAGE PARTICIPATION AGREEMENT (Continued)

In return for the Authority's maintenance, operation and improvement of that portion of the drainage facilities it owns and which it normally and historically has maintained, operated, or controlled, the City agrees that it will neither bill nor collect the annual drainage revenue for so long as the Authority's annual allocable costs, calculated on the basis of the anticipated allocable costs for the ensuing billing year, or averaged over a five-year period, beginning in billing year 2012-2013 and calculated for each successive billing year thereafter, offset the annual drainage revenue for the same year. The term of this agreement is ten years from the effective date.

NOTE 13. GENERATOR LEASE

The Authority executed an agreement with NRG Energy Services LLC ("NRG") dated November 10, 2011, for the lease of nine generators to service Water Pumping Station 3, Water Pumping Station 4, Lift Station 4 and the Wastewater Treatment Plant. The generators will remain the property of NRG throughout the 20-year term of the agreement. The Authority elected to make a buy down payment of \$800,000 to reduce the monthly service fees. Monthly service fees for the 1st, 2nd, 3rd, and 4th five-year terms of the agreement are \$20,880, \$18,630, \$14,130 and \$11,880, respectively. As of September 30, 2018, the prepaid lease balance was \$596,712 and the Authority recognized amortization expense of \$40,000.

NOTE 14. BOND REDEMPTION AND BOND SALE

On December 5, 2017, the Authority used available Debt Service Fund monies to retire \$2,825,000 and \$2,655,000 of its Series 2011 and Series 2011A Unlimited Tax and Revenue Bonds, respectively. The Series 2011 bonds had maturity dates of March 1, 2030-2035 with interest rates of 4.50%-4.75% and the Series 2011A bonds had maturity dates of March 1, 2030-2035 with interest rates of 4.25%-4.75%.

On December 14, 2017, the Authority issued its \$13,800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2017A. The proceeds were used to pay for the replacement and expansion of the operations building serving Water Plant No. 1, phase 1 of replacement of water trunk line, modifications to Lift Station No. 4 and discharge line at Lift Station No. 4, reclaimed water system, improvements to the drainage system at Torrey Pines Drive and phase 2 expansion of a detention pond. Additionally, proceeds from the bonds were used to pay certain costs of issuance of the bonds.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 15. GRANT AWARDS

The Authority has entered into an agreement with the Texas Parks and Wildlife Department (“TPWD”) for development of Exploration Green, Phase 3, to include the following facilities: pedestrian trail, benches, wetland plantings, native landscaping and irrigation. Under the agreement, the TPWD will fund up to \$500,000 over the term of the agreement, which begins September 24, 2018 and ends September 30, 2021. The Authority shall be required to match funds in the amount of \$500,000. During the current fiscal year, the Authority recorded grant income of \$106,100, all of which was recorded as a receivable at year-end.

During the current fiscal year, the Authority entered into separate interlocal agreements with the City of Houston (the “City”), Harris County (the “County”), and the Galveston Bay Foundation (the “Foundation”). The agreements provide funding for trails at Exploration Green. During the current fiscal year, the Authority received \$75,000 from the City, \$190,000 from the County and \$83,700 from the Foundation.

NOTE 16. SUBSEQUENT EVENT – BOND SALE

Subsequent to year-end, on December 18, 2018, the Authority issued its \$16,150,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018. The proceeds will be used to pay for modification to the Authority’s wastewater treatment plant, construction of a detention pond serving Exploration Green, Phases 3A and 4, flood mitigation and drainage system improvements. Additionally, proceeds from the bonds will be used to pay certain costs of issuance of the bonds.

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CLEAR LAKE CITY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018

CLEAR LAKE CITY WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property Taxes	\$ 2,761,200	\$ 2,757,138	\$ (4,062)
Water Service	6,511,275	6,839,175	327,900
Wastewater Service	4,353,945	4,601,452	247,507
Penalty and Interest	92,015	86,818	(5,197)
Tap Connection and Inspection Fees	765,125	804,315	39,190
Grant Revenues	50,000	454,819	404,819
Investment Revenues	140,000	222,906	82,906
Miscellaneous Revenues	<u>343,610</u>	<u>490,314</u>	<u>146,704</u>
TOTAL REVENUES	<u>\$ 15,017,170</u>	<u>\$ 16,256,937</u>	<u>\$ 1,239,767</u>
EXPENDITURES			
Services Operations:			
Bulk Water Purchases	\$ 3,100,000	\$ 1,928,777	\$ 1,171,223
Payroll	5,485,670	4,708,596	777,074
Utilities	807,510	865,579	(58,069)
Repairs and Maintenance	1,302,220	867,551	434,669
Professional Fees	946,375	1,139,488	(193,113)
Other	2,456,700	2,673,104	(216,404)
Capital Outlay	<u>683,270</u>	<u>3,812,522</u>	<u>(3,129,252)</u>
TOTAL EXPENDITURES	<u>\$ 14,781,745</u>	<u>\$ 15,995,617</u>	<u>\$ (1,213,872)</u>
NET CHANGE IN FUND BALANCE	\$ 235,425	\$ 261,320	\$ 25,895
FUND BALANCE - OCTOBER 1, 2017	<u>14,688,926</u>	<u>14,688,926</u>	<u> </u>
FUND BALANCE - SEPTEMBER 30, 2018	<u>\$ 14,924,351</u>	<u>\$ 14,950,246</u>	<u>\$ 25,895</u>

See accompanying independent auditor's report.

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CLEAR LAKE CITY WATER AUTHORITY
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2018

CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective October 31, 2011.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 5.50	1,000	N	\$ 1.00 2.75 2.28	1,001 to 5,000 5,001 to 10,000 10,001 and up
WASTEWATER:	\$ 5.50	1,000	N	\$ 1.00 1.90*	1,001 to 5,000 5,001 and up
SURCHARGE:	N/A				

Authority employs winter averaging for wastewater usage? X
Yes No

All customers who use over 5,000 gallons of water monthly will be charged at the regular rates for total water and sewer use.

Total monthly charges per 10,000 gallons usage: Water: \$23.25 Wastewater: \$17.58* Surcharge \$-0-

* In the absence of metered sewage flow, a residence will be charged for sewer based on a flow factor applied to the metered water usage as outlined in the Authority's rate order.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤ ³ / ₄ "	10,875	10,768	x 1.0	10,768
1"	6,231	6,218	x 2.5	15,545
1½"	285	282	x 5.0	1,410
2"	465	442	x 8.0	3,536
3"	49	43	x 15.0	645
4"	29	29	x 25.0	725
6"	8	8	x 50.0	400
8"	9	8	x 80.0	640
10"	2	2	x 115.0	230
Total Water Connections	<u>17,953</u>	<u>17,800</u>		<u>33,899</u>
Total Wastewater Connections	<u>17,581</u>	<u>17,426</u>	x 1.0	<u>17,426</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND:

Gallons pumped into system:	2,964,692,000	Water Accountability Ratio: 90.43% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	2,511,089,000	
Gallons purchased:	3,573,413,000	From: <u>City of Houston, Texas and City of Pasadena, Texas</u>
Gallons sold:	169,799,000	To: <u>Harris County Water Control and Improvement District No. 156 and Harris County Water Control and Improvement District No. 161</u>

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the Authority have Debt Service standby fees? Yes No

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

5. LOCATION OF AUTHORITY:

Is the Authority located entirely within one county?

Yes No

Counties in which Authority is located:

Harris County, Texas
Houston County, Texas (2 acres)

Is the Authority located within a city?

Entirely Partly Not at all

Cities in which Authority is located:

City of Pasadena, Texas; City of Houston, Texas; City of Webster, Texas; City of Taylor Lake Village, Texas and City of La Porte, Texas.

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

5. LOCATION OF AUTHORITY: (Continued)

Is the Authority located within a city's extraterritorial jurisdiction (ETJ)?

Entirely _____ Partly X Not at all _____

ETJ's in which Authority is located:

City of Webster, Texas and City of Pasadena, Texas.

Are Board Members appointed by an office outside the Authority?

Yes _____ No X

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 4,708,596</u>
PROFESSIONAL FEES:	
Auditing	\$ 31,125
Engineering	999,559
Legal	<u>108,804</u>
TOTAL PROFESSIONAL FEES	<u>\$ 1,139,488</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	<u>\$ 1,928,777</u>
UTILITIES:	
Electricity	\$ 696,761
Gas	1,764
Telephone	<u>167,054</u>
TOTAL UTILITIES	<u>\$ 865,579</u>
REPAIRS AND MAINTENANCE	<u>\$ 867,551</u>
ADMINISTRATIVE EXPENDITURES:	
Billing Costs	\$ 65,635
Director Fees	16,200
Insurance	222,001
Office Supplies and Postage	82,553
Regulatory Assessment	46,871
Travel and Meetings	40,009
Municipal Payment	739,060
Other	<u>172,107</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 1,384,436</u>
CAPITAL OUTLAY	<u>\$ 3,812,522</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

OTHER EXPENDITURES:	
Chemicals	\$ 112,449
Generator Lease	231,431
Inspection and Permit Fees	115,173
Janitorial Service	8,136
Laboratory Fees	48,428
Parts and Supplies	427,144
Safety Items	18,128
Sludge Hauling	170,381
Uniforms	25,811
Vehicle Supplies and Maintenance	100,266
Water Conservation	<u>31,321</u>
TOTAL OTHER EXPENDITURES	<u>\$ 1,288,668</u>
TOTAL EXPENDITURES	<u><u>\$ 15,995,617</u></u>

Number of persons employed by the Authority 63 Full-Time -0- Part-Time

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
INVESTMENTS
SEPTEMBER 30, 2018

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 15,343,253	\$
TexPool	XXXX0003	Varies	Daily	<u>697,523</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 16,040,776</u>	<u>\$ - 0 -</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0004	Varies	Daily	\$ 4,569,214	\$
TexPool	XXXX0005	Varies	Daily	<u>1</u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 4,569,215</u>	<u>\$ - 0 -</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0014	Varies	Daily	\$ 152,334	\$
TexPool	XXXX0032	Varies	Daily	221,213	
TexPool	XXXX0037	Varies	Daily	451,544	
TexPool	XXXX0039	Varies	Daily	1,460,674	
TexPool	XXXX0040	Varies	Daily	2,646,701	
TexPool	XXXX0041	Varies	Daily	2,416,176	
TexPool	XXXX0042	Varies	Daily	<u>12,510,388</u>	<u> </u>
TOTAL CAPITAL PROJECTS FUND				<u>\$ 19,859,030</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 40,469,021</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Maintenance Taxes	Debt Service Taxes
TAXES RECEIVABLE -		
OCTOBER 1, 2017	\$ 36,896	\$ 170,802
Adjustments to and collections of prior tax levies	(17,599)	(69,777)
2017 Tax Levy	2,778,293	12,224,490
Tax Collections for current and prior tax levies	(2,757,138)	(12,138,971)
TAXES RECEIVABLE -		
SEPTEMBER 30, 2018	\$ 40,452	\$ 186,544
 TAXES RECEIVABLE BY YEAR:		
2017	\$ 13,700	\$ 60,281
2016	4,106	18,067
2015	332	10,261
2014	1,507	6,933
2013	1,093	5,028
2012	962	4,425
2011	889	4,089
2010	2,082	9,579
2009	2,224	10,229
2008	2,015	9,267
2007 and prior	11,542	48,385
TOTAL	\$ 40,452	\$ 186,544

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Clear Lake City Water Authority:

	2017	2016	2015	2014
PROPERTY VALUATIONS:				
Land	\$ 1,716,772,200	\$ 1,565,575,103	\$ 1,474,597,548	\$ 1,434,766,969
Improvements	5,121,650,667	4,969,706,859	4,626,530,252	4,237,877,750
Personal Property	636,571,128	560,820,829	534,962,240	559,961,076
Exemptions	<u>(1,918,407,634)</u>	<u>(1,845,639,877)</u>	<u>(1,771,985,450)</u>	<u>(1,669,285,648)</u>
TOTAL PROPERTY VALUATIONS	<u><u>\$ 5,556,586,361</u></u>	<u><u>\$ 5,250,462,914</u></u>	<u><u>\$ 4,864,104,590</u></u>	<u><u>\$ 4,563,320,147</u></u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.23
Maintenance	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
TOTAL TAX RATES PER \$100 VALUATION	<u><u>\$ 0.27</u></u>	<u><u>\$ 0.27</u></u>	<u><u>\$ 0.27</u></u>	<u><u>\$ 0.28</u></u>
ADJUSTED TAX LEVY*	<u><u>\$ 15,002,783</u></u>	<u><u>\$ 14,176,252</u></u>	<u><u>\$ 13,133,082</u></u>	<u><u>\$ 12,777,296</u></u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u><u>99.51 %</u></u>	<u><u>99.84 %</u></u>	<u><u>99.92 %</u></u>	<u><u>99.93 %</u></u>

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

Maintenance Tax – Maximum Tax Rate of \$0.05 per \$100 of assessed valuation approved by voters on August 14, 1982.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2018

**Harris County Water Control and
Improvement District No. 75:**

	<u>2017**</u>	<u>2016**</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$	\$	\$ 22,915,529	\$ 22,966,572
Improvements			39,807,368	36,509,438
Personal Property			506,050	567,960
Exemptions			<u>(2,748,809)</u>	<u>(3,039,992)</u>
TOTAL PROPERTY VALUATIONS	\$	\$	\$ 60,480,138	\$ 57,003,978
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.00	\$ 0.00	\$ 0.33	\$ 0.405
Maintenance	<u>0.00</u>	<u>0.00</u>	<u>0.05</u>	<u>0.050</u>
TOTAL TAX RATES PER \$100 VALUATION	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.38</u>	\$ <u>0.46</u>
ADJUSTED TAX LEVY*	<u>N/A</u>	<u>N/A</u>	<u>\$ 229,824</u>	<u>\$ 259,368</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>N/A</u> %	<u>N/A</u> %	<u>99.99</u> %	<u>100.00</u> %

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

**District No. 75 has paid off the bonds that existed prior to the merger with Clear Lake City Water Authority. The tax rate is now uniform throughout the Authority.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$11,645,000 - 2 0 0 9

Due During Fiscal Years Ending September 30	Principal Due March 1*	Interest Due March 1/ September 1	Total
2019	\$ 325,000	\$ 50,500	\$ 375,500
2020	345,000	37,100	382,100
2021	755,000	22,900	777,900
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
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2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 1,425,000</u>	<u>\$ 110,500</u>	<u>\$ 1,535,500</u>

* Final principal payment is due September 1, 2021. All other principal payments are due March 1.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$ 5,270,000 - 2 0 0 9

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 490,000	\$ 7,963	\$ 497,963
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 490,000</u>	<u>\$ 7,963</u>	<u>\$ 497,963</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$8,815,000 - 2 0 1 0

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 260,000	\$ 27,999	\$ 287,999
2020	270,000	16,737	286,737
2021	275,000	5,500	280,500
2022			
2023			
2024			
2025			
2026			
2027			
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2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 805,000</u>	<u>\$ 50,236</u>	<u>\$ 855,236</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$7,620,000 - 2 0 1 1

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 240,000	\$ 130,380	\$ 370,380
2020	250,000	123,030	373,030
2021	265,000	114,643	379,643
2022	280,000	104,405	384,405
2023	290,000	93,005	383,005
2024	305,000	81,105	386,105
2025	325,000	68,505	393,505
2026	340,000	55,205	395,205
2027	355,000	40,861	395,861
2028	375,000	25,349	400,349
2029	395,000	8,690	403,690
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 3,420,000</u>	<u>\$ 845,178</u>	<u>\$ 4,265,178</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$7,130,000 - 2 0 1 1 A

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 225,000	\$ 114,913	\$ 339,913
2020	235,000	108,012	343,012
2021	245,000	100,506	345,506
2022	260,000	92,138	352,138
2023	275,000	82,937	357,937
2024	290,000	72,869	362,869
2025	300,000	61,987	361,987
2026	320,000	49,963	369,963
2027	335,000	36,862	371,862
2028	350,000	22,944	372,944
2029	370,000	7,863	377,863
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
	<u>\$ 3,205,000</u>	<u>\$ 750,994</u>	<u>\$ 3,955,994</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$11,105,000 - 2012

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 350,000	\$ 16,350	\$ 366,350
2020	370,000	5,550	375,550
2021			
2022			
2023			
2024			
2025			
2026			
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2037			
2038			
	<u>\$ 720,000</u>	<u>\$ 21,900</u>	<u>\$ 741,900</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$6,300,000 - 2 0 1 2

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 215,000	\$ 163,406	\$ 378,406
2020	225,000	156,806	381,806
2021	235,000	149,906	384,906
2022	245,000	142,706	387,706
2023	255,000	135,206	390,206
2024	265,000	127,406	392,406
2025	275,000	119,307	394,307
2026	285,000	110,907	395,907
2027	300,000	101,944	401,944
2028	310,000	92,413	402,413
2029	325,000	82,287	407,287
2030	335,000	71,562	406,562
2031	350,000	60,212	410,212
2032	365,000	48,147	413,147
2033	380,000	35,338	415,338
2034	395,000	21,775	416,775
2035	410,000	7,431	417,431
2036			
2037			
2038			
	<u>\$ 5,170,000</u>	<u>\$ 1,626,759</u>	<u>\$ 6,796,759</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$4,305,000 - 2012A

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 150,000	\$ 112,500	\$ 262,500
2020	155,000	107,925	262,925
2021	160,000	103,200	263,200
2022	165,000	98,325	263,325
2023	175,000	93,225	268,225
2024	180,000	87,900	267,900
2025	190,000	82,350	272,350
2026	195,000	76,575	271,575
2027	205,000	70,447	275,447
2028	215,000	63,884	278,884
2029	220,000	56,950	276,950
2030	230,000	49,637	279,637
2031	240,000	41,850	281,850
2032	250,000	33,581	283,581
2033	260,000	24,650	284,650
2034	270,000	15,044	285,044
2035	280,000	5,075	285,075
2036			
2037			
2038			
	<u>\$ 3,540,000</u>	<u>\$ 1,123,118</u>	<u>\$ 4,663,118</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$4,380,000 - 2 0 1 3

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 125,000	\$ 144,769	\$ 269,769
2020	135,000	140,869	275,869
2021	140,000	136,744	276,744
2022	145,000	132,469	277,469
2023	150,000	128,044	278,044
2024	155,000	123,275	278,275
2025	160,000	118,156	278,156
2026	170,000	112,156	282,156
2027	175,000	105,256	280,256
2028	185,000	98,056	283,056
2029	190,000	90,556	280,556
2030	200,000	82,756	282,756
2031	205,000	74,656	279,656
2032	215,000	66,256	281,256
2033	225,000	57,456	282,456
2034	235,000	48,109	283,109
2035	240,000	38,312	278,312
2036	250,000	28,050	278,050
2037	260,000	17,213	277,213
2038	275,000	5,844	280,844
	<u>\$ 3,835,000</u>	<u>\$ 1,749,002</u>	<u>\$ 5,584,002</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$21,000,000 - 2 0 1 3 A

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$	\$ 944,138	\$ 944,138
2020		944,138	944,138
2021		944,138	944,138
2022		944,138	944,138
2023	915,000	920,119	1,835,119
2024	960,000	870,900	1,830,900
2025	1,005,000	820,575	1,825,575
2026	1,050,000	769,200	1,819,200
2027	1,095,000	715,575	1,810,575
2028	1,150,000	659,450	1,809,450
2029	1,200,000	600,700	1,800,700
2030	1,255,000	539,325	1,794,325
2031	1,315,000	475,075	1,790,075
2032	1,375,000	414,700	1,789,700
2033	1,435,000	358,500	1,793,500
2034	1,505,000	299,700	1,804,700
2035	1,575,000	238,100	1,813,100
2036	1,645,000	173,700	1,818,700
2037	1,720,000	106,400	1,826,400
2038	1,800,000	36,000	1,836,000
	<u>\$ 21,000,000</u>	<u>\$ 11,774,571</u>	<u>\$ 32,774,571</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$5,705,000 - 2 0 1 4

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 970,000	\$ 93,525	\$ 1,063,525
2020	565,000	67,063	632,063
2021	1,065,000	44,025	1,109,025
2022	935,000	14,025	949,025
2023			
2024			
2025			
2026			
2027			
2028			
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2035			
2036			
2037			
2038			
	<u>\$ 3,535,000</u>	<u>\$ 218,638</u>	<u>\$ 3,753,638</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

REFUNDING SERIES - \$5,645,000 - 2016

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 780,000	\$ 64,307	\$ 844,307
2020	1,310,000	49,155	1,359,155
2021	1,345,000	29,907	1,374,907
2022	1,390,000	10,077	1,400,077
2023			
2024			
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2036			
2037			
2038			
	<u>\$ 4,825,000</u>	<u>\$ 153,446</u>	<u>\$ 4,978,446</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$11,545,000 - 2 0 1 7

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 385,000	\$ 317,081	\$ 702,081
2020	395,000	309,281	704,281
2021	410,000	301,231	711,231
2022	430,000	292,831	722,831
2023	445,000	284,081	729,081
2024	460,000	275,031	735,031
2025	480,000	263,231	743,231
2026	495,000	248,607	743,607
2027	515,000	233,456	748,456
2028	535,000	217,706	752,706
2029	555,000	201,356	756,356
2030	580,000	184,331	764,331
2031	600,000	166,632	766,632
2032	625,000	148,256	773,256
2033	645,000	128,804	773,804
2034	670,000	108,256	778,256
2035	695,000	86,494	781,494
2036	725,000	63,419	788,419
2037	750,000	38,981	788,981
2038	780,000	13,163	793,163
	<u>\$ 11,175,000</u>	<u>\$ 3,882,228</u>	<u>\$ 15,057,228</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

S E R I E S - \$13,800,000 - 2 0 1 7 A

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2019	\$ 475,000	\$ 379,525	\$ 854,525
2020	495,000	369,825	864,825
2021	510,000	359,775	869,775
2022	525,000	346,800	871,800
2023	545,000	330,750	875,750
2024	560,000	314,175	874,175
2025	580,000	297,075	877,075
2026	600,000	279,375	879,375
2027	620,000	261,075	881,075
2028	640,000	242,175	882,175
2029	660,000	222,675	882,675
2030	685,000	202,500	887,500
2031	705,000	181,650	886,650
2032	730,000	160,125	890,125
2033	750,000	137,925	887,925
2034	775,000	115,050	890,050
2035	805,000	91,350	896,350
2036	830,000	66,825	896,825
2037	855,000	41,016	896,016
2038	885,000	13,828	898,828
	<u>\$ 13,230,000</u>	<u>\$ 4,413,494</u>	<u>\$ 17,643,494</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2018

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal Interest Due
2019	\$ 4,990,000	\$ 2,567,356	\$ 7,557,356
2020	4,750,000	2,435,491	7,185,491
2021	5,405,000	2,312,475	7,717,475
2022	4,375,000	2,177,914	6,552,914
2023	3,050,000	2,067,367	5,117,367
2024	3,175,000	1,952,661	5,127,661
2025	3,315,000	1,831,186	5,146,186
2026	3,455,000	1,701,988	5,156,988
2027	3,600,000	1,565,476	5,165,476
2028	3,760,000	1,421,977	5,181,977
2029	3,915,000	1,271,077	5,186,077
2030	3,285,000	1,130,111	4,415,111
2031	3,415,000	1,000,075	4,415,075
2032	3,560,000	871,065	4,431,065
2033	3,695,000	742,673	4,437,673
2034	3,850,000	607,934	4,457,934
2035	4,005,000	466,762	4,471,762
2036	3,450,000	331,994	3,781,994
2037	3,585,000	203,610	3,788,610
2038	3,740,000	68,835	3,808,835
	<u>\$ 76,375,000</u>	<u>\$ 26,728,027</u>	<u>\$ 103,103,027</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Description	Original Bonds Issued	Bonds Outstanding October 1, 2017
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2009	\$ 11,645,000	\$ 2,400,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2009	5,270,000	955,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2010	8,815,000	1,060,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2011	7,620,000	6,475,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2011A	7,130,000	6,075,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012	11,105,000	3,795,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	6,300,000	5,380,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2012A	4,305,000	3,680,000

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding September 30, 2018	Paying Agent
	Principal	Interest		
\$	\$ 975,000	\$ 76,500	\$ 1,425,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	465,000	22,900	490,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	255,000	38,626	805,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	3,055,000	275,757	3,420,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	2,870,000	248,682	3,205,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	3,075,000	83,100	720,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	210,000	169,781	5,170,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	140,000	116,850	3,540,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Description	Original Bonds Issued	Bonds Outstanding October 1, 2017
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013	\$ 4,380,000	\$ 3,955,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013A	21,000,000	21,000,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2014	5,705,000	3,940,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2016	5,645,000	5,575,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2017	11,545,000	11,545,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2017A	<u>13,800,000</u>	
TOTAL	<u>\$ 124,265,000</u>	<u>\$ 75,835,000</u>

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 120,000	\$ 147,844	\$ 3,835,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		944,138	21,000,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	405,000	121,025	3,535,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	750,000	75,400	4,825,000	Trustmark National Bank Houston, TX
	370,000	324,631	11,175,000	Branch Banking and Trust Company, Dallas, TX
<u>13,800,000</u>	<u>570,000</u>	<u>276,767</u>	<u>13,230,000</u>	Branch Banking and Trust Company, Dallas, TX
<u>\$ 13,800,000</u>	<u>\$ 13,260,000</u>	<u>\$ 2,922,001</u>	<u>\$ 76,375,000</u>	

See accompanying independent auditor's report.

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CLEAR LAKE CITY WATER AUTHORITY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

RECONCILIATION OF BONDS ISSUED:

In addition to the bond issues listed on the previous pages, the Authority has retired the following:

Entity	Bond Issue	Amount
Harris County Municipal Utility District No. 181	Series 1983	\$ 1,300,000
Harris County Municipal Utility District No. 181	Series 1986	440,000
Harris County Water Control & Improvement District No. 75	Series 1992	3,005,000
Clear Lake City Water Authority	Series 1963	5,400,000
Clear Lake City Water Authority	Series 1967	3,025,000
Clear Lake City Water Authority	Series 1968	1,965,000
Clear Lake City Water Authority	Series 1969	1,450,000
Clear Lake City Water Authority	Series 1971	2,850,000
Clear Lake City Water Authority	Series 1975	1,000,000
Clear Lake City Water Authority	Series 1976	1,780,000
Clear Lake City Water Authority	Series 1977	1,080,000
Clear Lake City Water Authority	Series 1977-A	2,100,000
Clear Lake City Water Authority	Series 1978	1,900,000
Clear Lake City Water Authority	Series 1980	1,450,000
Clear Lake City Water Authority	Series 1986	5,910,000
Clear Lake City Water Authority	Series 1987	9,535,000
Clear Lake City Water Authority	Series 1987-A	7,000,000
Clear Lake City Water Authority	Series 1988	4,700,000
Clear Lake City Water Authority	Series 1989	3,350,000
Clear Lake City Water Authority	Refunding Series 1990	1,440,000
Clear Lake City Water Authority	Series 1990	6,400,000
Clear Lake City Water Authority	Series 1991	8,090,000
Clear Lake City Water Authority	Refunding Series 1992	5,520,000
Clear Lake City Water Authority	Series 1993	8,345,000
Clear Lake City Water Authority	Series 1993-A	7,000,000
Clear Lake City Water Authority	Series 1993-B	9,600,000
Clear Lake City Water Authority	Refunding Series 1994	18,840,000
Clear Lake City Water Authority	Series 1997	5,705,000
Clear Lake City Water Authority	Refunding Series 1998-A	1,305,000
Harris County Water Control & Improvement District No. 75	Refunding Series 1998-B	2,160,000
Clear Lake City Water Authority	Series 1998	5,410,000
Clear Lake City Water Authority	Refunding 1998	10,655,000
Clear Lake City Water Authority	Series 1999	6,900,000
Clear Lake City Water Authority	Refunding Series 1999	6,065,000
Clear Lake City Water Authority	Series 2000	4,485,000
Clear Lake City Water Authority	Refunding Series 2002	11,405,000
Clear Lake City Water Authority	Series 2001	7,885,000
Clear Lake City Water Authority	Refunding Series 2003-A	9,155,000
Clear Lake City Water Authority	Refunding Series 2003-B	7,125,000
Clear Lake City Water Authority	Series 2005	9,600,000
Clear Lake City Water Authority	Series 2006	5,500,000
Clear Lake City Water Authority	Refunding Series 2006	4,255,000
Clear Lake City Water Authority	Series 2008	8,730,000
TOTAL BOND ISSUES RETIRED IN PREVIOUS FISCAL YEARS		\$ 230,815,000
Original Bonds as listed on pages 65-68		124,265,000
TOTAL BONDS ISSUED		\$ 355,080,000

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Tax Bonds		
	Clear Lake City Water Authority	HC MUD No. 181	HC WCID No. 75
Bond Authority:			
Amount Authorized by Voters	\$ 299,390,400	\$ 5,000,000	\$ 3,005,000
Amount Issued	<u>225,190,000</u>	<u>1,740,000</u>	<u>3,005,000</u>
Remaining to be Issued	<u>\$ 74,200,400</u>	<u>\$ 3,260,000</u>	<u>\$ -0-</u>
Debt Service Fund cash and investment balances as of September 30, 2018:			<u>\$ 4,657,090</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 5,155,151</u>

See accompanying independent auditor's report.

<u>Total</u>	<u>Refunding Bonds</u>		<u>Total</u>
	<u>Clear Lake City Water Authority</u>	<u>HC MUD No. 181</u>	
\$ 307,395,400	\$ 243,323,100	\$ 5,000,000	\$248,323,100
<u>229,935,000</u>	<u>61,000,617</u>	<u>2,745,000</u>	<u>63,745,617</u>
<u>\$ 77,460,400</u>	<u>\$ 182,322,483</u>	<u>\$ 2,255,000</u>	<u>\$ 184,577,483</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 2,757,138	\$ 2,614,780	\$ 2,453,923
Water Service	6,839,175	6,454,504	6,656,052
Wastewater Service	4,601,452	4,510,080	4,595,664
Penalty and Interest	86,818	83,632	97,089
Tap Connection and Inspection Fees	804,315	524,161	394,993
Grant Revenues	454,819		
Investment Revenues	222,906	96,670	34,284
Miscellaneous Revenues	490,314	373,865	297,380
TOTAL REVENUES	\$ 16,256,937	\$ 14,657,692	\$ 14,529,385
EXPENDITURES			
Payroll	\$ 4,708,596	\$ 4,740,899	\$ 4,229,916
Bulk Water Purchases	1,928,777	3,169,801	2,591,386
Professional Fees	1,139,488	798,725	891,593
Utilities	865,579	921,634	926,870
Repairs and Maintenance	867,551	469,417	807,749
Other	2,673,104	2,648,109	2,415,706
Capital Outlay	3,812,522	744,004	391,735
TOTAL EXPENDITURES	\$ 15,995,617	\$ 13,492,589	\$ 12,254,955
NET CHANGE IN FUND BALANCE	\$ 261,320	\$ 1,165,103	\$ 2,274,430
BEGINNING FUND BALANCE	14,688,926	13,523,823	11,249,393
ENDING FUND BALANCE	\$ 14,950,246	\$ 14,688,926	\$ 13,523,823

* As Adjusted

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 2,296,725	\$ 2,178,090	17.0 %	17.8 %	16.9 %	16.7 %	16.6 %
6,232,072	6,137,415	42.1	44.0	45.8	45.6	47.0
4,416,166	4,315,069	28.3	30.8	31.6	32.3	33.1
121,405	112,760	0.5	0.6	0.7	0.9	0.9
281,965	87,029	4.9	3.6	2.7	2.1	0.7
		2.8				
4,802	3,065	1.4	0.7	0.2		
322,507	214,286	3.0	2.5	2.1	2.4	1.7
<u>\$ 13,675,642</u>	<u>\$ 13,047,714</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 4,059,932	\$ 3,947,077	29.0 %	32.3 %	29.1 %	29.7 %	30.3 %
2,021,735	1,775,078	11.9	21.6	17.8	14.8	13.6
713,918	768,657	7.0	5.4	6.1	5.2	5.9
833,780	891,641	5.3	6.3	6.4	6.1	6.8
485,497	382,678	5.3	3.2	5.6	3.6	2.9
2,510,257	2,403,178	16.4	18.1	16.6	18.4	18.4
<u>1,847,660</u>	<u>2,702,685</u>	<u>23.5</u>	<u>5.1</u>	<u>2.7</u>	<u>13.5</u>	<u>20.7</u>
<u>\$ 12,472,779</u>	<u>\$ 12,870,994</u>	<u>98.4 %</u>	<u>92.0 %</u>	<u>84.3 %</u>	<u>91.3 %</u>	<u>98.6 %</u>
\$ 1,202,863	\$ 176,720	<u>1.6 %</u>	<u>8.0 %</u>	<u>15.7 %</u>	<u>8.7 %</u>	<u>1.4 %</u>
<u>10,046,530</u>	<u>9,518,382</u>					
<u>\$ 11,249,393</u>	<u>\$ 9,695,102</u>					

*

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	\$ 12,138,971	\$ 11,505,105	\$ 10,866,413
Penalty and Interest	110,811	85,925	78,837
Miscellaneous Revenues	<u>137,224</u>	<u>97,910</u>	<u>73,772</u>
TOTAL REVENUES	<u>\$ 12,387,006</u>	<u>\$ 11,688,940</u>	<u>\$ 11,019,022</u>
EXPENDITURES			
Payroll	\$ 279,188	\$ 279,027	\$ 321,405
Debt Service Principal	13,260,000	7,665,000	7,535,000
Debt Service Interest and Fees	3,073,628	2,900,015	3,053,537
Tax Collection Expenditures	108,522	109,238	91,668
Payment to Refunding Bonds Escrow Agent			17,000
Bond Issuance Costs			<u>119,920</u>
TOTAL EXPENDITURES	<u>\$ 16,721,338</u>	<u>\$ 10,953,280</u>	<u>\$ 11,138,530</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (4,334,332)</u>	<u>\$ 735,660</u>	<u>\$ (119,508)</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued-Refunding	\$	\$	\$ 5,645,000
Premium on Bonds Issued			
Transfer to Refunding Bonds Escrow Agent			<u>(5,497,677)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 147,323</u>
NET CHANGE IN FUND BALANCE	\$ (4,334,332)	\$ 735,660	\$ 27,815
BEGINNING FUND BALANCE	<u>8,872,624</u>	<u>8,136,964</u>	<u>8,109,149</u>
ENDING FUND BALANCE	<u>\$ 4,538,292</u>	<u>\$ 8,872,624</u>	<u>\$ 8,136,964</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>17,800</u>	<u>17,809</u>	<u>17,821</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>17,426</u>	<u>17,337</u>	<u>17,394</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 10,666,625	\$ 10,142,276	98.0 %	98.5 %	98.6 %	99.2 %	99.0 %
72,136	106,146	0.9	0.7	0.7	0.7	1.0
10,966	8,091	1.1	0.8	0.7	0.1	
<u>\$ 10,749,727</u>	<u>\$ 10,256,513</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 269,534	\$ 267,475	2.3 %	2.4 %	2.9 %	2.5 %	2.6 %
7,220,000	6,555,000	107.0	65.6	68.4	67.2	63.9
3,406,299	3,908,548	24.8	24.8	27.7	31.7	38.1
82,455	99,965	0.9	0.9	0.8	0.8	1.0
	70,000			0.2		0.7
	129,950			1.1		1.3
<u>\$ 10,978,288</u>	<u>\$ 11,030,938</u>	<u>135.0 %</u>	<u>93.7 %</u>	<u>101.1 %</u>	<u>102.2 %</u>	<u>107.6 %</u>
<u>\$ (228,561)</u>	<u>\$ (774,425)</u>	<u>(35.0) %</u>	<u>6.3 %</u>	<u>(1.1) %</u>	<u>(2.2) %</u>	<u>(7.6) %</u>
\$	\$ 5,705,000					
	343,836					
	(5,899,649)					
<u>\$ - 0 -</u>	<u>\$ 149,187</u>					
\$ (228,561)	\$ (625,238)					
8,337,710	8,962,948					
<u>\$ 8,109,149</u>	<u>\$ 8,337,710</u>					
<u>17,649</u>	<u>17,684</u>					
<u>17,197</u>	<u>17,228</u>					

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2018**

Authority Mailing Address - Clear Lake City Water Authority
900 Bay Area Blvd.
Houston, TX 77058-2604

Authority Telephone Number - (281) 488-1164

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2018	Expense Reimbursements for the year ended September 30, 2018	Title
John B. Branch	05/2016 05/2020 (Elected)	\$ 2,400	\$ -0-	President/ Investment Officer
Robert T. Savely	05/2016 05/2020 (Elected)	\$ 4,800	\$ -0-	Vice President
Thomas Morrow	05/2018 05/2022 (Elected)	\$ 4,800	\$ -0-	Secretary
Gordon Johnson	05/2018 05/2022 (Elected)	\$ 4,800	\$ -0-	Director
John Graf	05/2016 05/2020 (Elected)	\$ 4,800	\$ -0-	Director

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

Submission Date of most recent Registration Form (TWC Sections 36.054 and 49.054) March 09, 2018.

Limit on Fees of Office that a Director may receive during a fiscal year is the maximum allowed by law as set by Board Resolution (TWC Section 49.060) on February 10, 2011. Fees of Office are the amounts actually paid to a Director during the Authority's current fiscal year.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2018

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees/ Compensation for the fiscal year ending September 30, 2018</u>	<u>Title</u>
Jennifer Morrow	05/17/98	\$ 115,642	General Manager/ Treasurer
Curtis Rodgers	01/16/86	\$ 100,047	Director of Utilities
Mary Ann Schatz	11/18/77	\$ 96,393	Capital Projects Bookkeeper
Donna Haynes	08/10/88	\$ 66,880	Tax Assessor/Collector
Fatima Uwakwe	06/01/15	\$ 74,907	Accounts Manager
 Consultants:			
Coats Rose, P.C.	08/13/15	\$ 92,918	General Counsel
McCall Gibson Swedlund Barfoot PLLC	07/31/96	\$ 41,500	Auditor
Sanford Kuhl Hagan Kugle Parker Kahn LLP	02/11/10	\$ 37,610	Bond Counsel
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	06/28/01	\$ 24,435	Delinquent Tax Attorney
Lockwood, Andrews & Newnam, Inc.	12/18/97	\$ 3,557,814	Engineer
Robert W. Baird & Co.	02/12/15	\$ 95,725	Financial Advisor

See accompanying independent auditor's report.