

OFFICIAL STATEMENT DATED APRIL 25, 2019

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

The Bonds have been designated "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

S&P (AGM insured)..... "AA"
Moody's (AGM insured)..... "A2"
Moody's (underlying)..... "Baa3"
See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.

\$6,465,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 5

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

UNLIMITED TAX BONDS

SERIES 2019

Interest accrues from: May 1, 2019

Due: September 1, as shown on inside cover

The \$6,465,000 Unlimited Tax Bonds, Series 2019 (the "Bonds"), are obligations of Fort Bend County Municipal Utility District No. 5 (the "District") and are not obligations of the State of Texas; Fort Bend County, Texas; the Village of Pleak, Texas; or any entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Fort Bend County, Texas; the Village of Pleak, Texas; nor any entity other than the District is pledged to the payment of the principal of or the interest on the Bonds.

Interest on the Bonds will accrue from May 1, 2019, and be payable on September 1, 2019, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption, to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each Interest Payment Date (the "Record Date") and will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar for the Bonds is Regions Bank, an Alabama banking corporation, Houston, Texas (the "Paying Agent/Registrar").

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



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

The Bonds constitute the seventh series of unlimited tax bonds issued by the District for the purpose of constructing water, sanitary sewer and drainage facilities to serve the District. The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

The Bonds are subject to special investment considerations described herein. Bond purchasers are encouraged to read this entire Official Statement, including particularly the section titled "INVESTMENT CONSIDERATIONS," prior to making an investment decision. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about May 23, 2019.

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

\$4,755,000 Serial Bonds

| Maturity (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number 346793 (b) | Maturity (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number 346793 (b) |
|---------------------------|---------------------|------------------|------------------------------------|-------------------------------|---------------------------|---------------------|------------------|------------------------------------|-------------------------------|
| 2020 | \$165,000 | 4.625% | 1.750% | FZ0 | 2031 (c) | 240,000 | 3.000% | 2.940% | GL0 |
| 2021 | 170,000 | 4.625% | 1.850% | GA4 | **** | **** | **** | **** | **** |
| 2022 | 180,000 | 4.625% | 1.900% | GB2 | 2036 (c) | 290,000 | 3.000% | 3.150% | GR7 |
| 2023 | 185,000 | 4.625% | 1.950% | GC0 | 2037 (c) | 295,000 | 3.000% | 3.200% | GS5 |
| 2024 | 190,000 | 4.625% | 2.050% | GD8 | 2038 (c) | 310,000 | 3.000% | 3.250% | GT3 |
| 2025 (c) | 195,000 | 2.125% | 2.150% | GE7 | **** | **** | **** | **** | **** |
| 2026 (c) | 205,000 | 2.125% | 2.300% | GF3 | 2041 (c) | 340,000 | 3.250% | 3.340% | GW6 |
| 2027 (c) | 210,000 | 2.250% | 2.450% | GG1 | 2042 (c) | 355,000 | 3.250% | 3.360% | GX4 |
| 2028 (c) | 220,000 | 2.250% | 2.600% | GH9 | 2043 (c) | 365,000 | 3.250% | 3.380% | GY2 |
| 2029 (c) | 225,000 | 3.000% | 2.750% | GJ5 | 2044 (c) | 380,000 | 3.250% | 3.400% | GZ9 |
| 2030 (c) | 235,000 | 3.000% | 2.870% | GK2 | | | | | |

\$1,710,000 Term Bonds

\$510,000 Term Bond due September 1, 2033 (c)(d) Interest Rate: 3.000% (Price: \$99.536) (a) CUSIP No. 346793 GN6 (b)
 \$550,000 Term Bond due September 1, 2035 (c)(d) Interest Rate: 3.000% (Price: \$98.726) (a) CUSIP No. 346793 GQ9 (b)
 \$650,000 Term Bond due September 1, 2040 (c)(d) Interest Rate: 3.125% (Price: \$97.038) (a) CUSIP No. 346793 GV8 (b)

- (a) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from May 1, 2019, to the date of delivery of the Bonds 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 District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2025, in whole or from time to time in part, on September 1, 2024, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Redemption Provisions."
- (d) Subject to mandatory redemption as provided under "THE BONDS – Redemption Provisions – *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 District or the Underwriter.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

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

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

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

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

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 final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission ("SEC").

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") to purchase the Bonds bearing the interest rates shown on the inside cover page of this Official Statement at a price of 97.000000% of par value thereof plus accrued interest to date of delivery resulting in a net effective interest rate to the District of 3.300676%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

Subject to certain restrictions described in the Official Notice of Sale, 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 District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

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

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At December 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,533 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,034 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,873 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials

incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

The information above relating to AGM has been provided by AGM for inclusion in this Official Statement, and the District takes no responsibility for the accuracy or completeness thereof..

RATINGS

S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The Bonds are expected to receive an insured rating of "AA" on the Bonds from S&P solely in reliance upon the issuance of the Policy issued by AGM at the time of delivery of the Bonds.

The Bonds are expected to receive an insured rating of "A2" (stable outlook) from Moody's solely in reliance upon the issuance of the Policy issued by AGM at the time of delivery of the Bonds. Moody's has assigned an underlying credit rating of "Baa3" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007.

A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P or Moody's, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned the Bonds other than the ratings of S&P and Moody's.

OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

- The District..... Fort Bend County Municipal Utility District No. 5 (the “District”), a political subdivision of the State of Texas, is located in Fort Bend County, Texas. See “THE DISTRICT.”
- The Bonds..... The District’s \$6,465,000 Unlimited Tax Bonds, Series 2019 (the “Bonds”) are dated May 1, 2019. Interest accrues from May 1, 2019, at the rates per annum set forth on the inside cover page hereof and is payable on September 1, 2019, and on each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds mature on September 1 in the years and amounts set forth on the inside cover page hereof. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General.”
- Redemption Provisions The Bonds maturing on September 1, 2020, through September 1, 2031, inclusive, September 1, 2036 through September 1, 2038, inclusive, and September 1, 2041 through September 1, 2044, inclusive, are serial bonds. The Bonds maturing on September 1 in the years 2033, 2035 and 2040 are term bonds (the “Term Bonds”), which have certain mandatory redemption provisions set out herein under “THE BONDS – Redemption Provisions – *Mandatory Redemption.*” The Bonds maturing on or after September 1, 2025, are subject to redemption, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Redemption Provisions – *Optional Redemption.*”
- Source of Payment Principal and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Fort Bend County, Texas; the Village of Pleak, Texas; or any other political subdivision or entity other than the District. See “THE BONDS – Source of Payment.”
- Payment Record..... The District has never defaulted on the timely payment of principal or interest on its bonded indebtedness. See “THE BONDS – Payment Record.”
- Authority for Issuance..... At an election held within the District on November 7, 2006, voters of the District authorized the District’s issuance of a total of \$87,000,000 principal amount of unlimited tax bonds for the purpose of financing water, sanitary sewer, and drainage facilities to serve the District. The Bonds represent the District’s seventh series of bonds to be issued from such voter authorization. The Bonds are issued pursuant to (i) the above-referenced election; (ii) an order of the Texas Commission on Environmental Quality (the “TCEQ”) dated March 15, 2019; (iii) the resolution authorizing the issuance of the Bonds (the “Bond Resolution”); (iv) Article XVI Section 59 of the Texas Constitution; and (v) the general laws of the

State of Texas, including particularly Chapters 49 and 54, Texas Water Code, as amended. See "THE BONDS – Authority for Issuance."

- Outstanding Bonds The District has previously issued six series of unlimited tax bonds. Of such six series of bonds, \$14,545,000 principal amount remains outstanding as of April 1, 2019 (the "Outstanding Bonds").
- Short-Term Debt..... In connection with the Bonds, the District issued its \$3,267,000 Bond Anticipation Note, Series 2018, dated November 1, 2018 (the "BAN"). The BAN accrues interest at a rate of 2.647% per year (computed on the basis of a 365-day year and the actual days elapsed) and matures on October 31, 2019. Proceeds from sale of the BAN were used to reimburse the Developer (hereinafter defined) for a portion of the costs associated with the projects set out herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." Proceeds from the sale of the Bonds will be used to redeem the BAN as described below.
- Use of Proceeds A portion of the proceeds of the sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer (hereinafter defined) for a portion of the costs associated with construction of the facilities shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." Proceeds from the Bonds will also be used to reimburse the Developer for its project expenditures that were not reimbursed by the BAN, to pay developer interest, and to pay costs of issuance of the BAN and the Bonds.
- Municipal Bond Insurance Assured Guaranty Municipal Corp. ("AGM"). See "MUNICIPAL BOND INSURANCE" above.
- Ratings S&P Global Ratings ("S&P") – AGM insured – "AA". Moody's Investors Service ("Moody's") – AGM insured – "A2". Moody's – underlying – "Baa3". See "MUNICIPAL BOND INSURANCE" "RATINGS" above.
- General & Bond Counsel..... Allen Boone Humphries Robinson LLP, Houston, Texas.
- Disclosure Counsel McCall, Parkhurst & Horton, L.L.P., Houston, Texas.
- Financial Advisor..... Robert W. Baird & Co. Incorporated, Houston, Texas.
- District Engineer..... RG Miller Engineers, Inc., Houston, Texas.

THE DISTRICT

- Description..... The District, a political subdivision of the State of Texas, is located wholly within Fort Bend County, Texas, approximately 40 miles southwest of Houston's central business district. The District lies at the intersection of Ustinik Road and Texas State Highway 36. The District consists of approximately 820 total acres. Approximately 748 acres of the land within the District is within the exclusive extraterritorial jurisdiction of the Village of Pleak and approximately 72 acres of land within the District lies within the corporate limits of the Village of Pleak. See "THE DISTRICT."
- Authority..... The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly

Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT – General."

Developer.....The current developer of land located within the District is Woodmere Development Company Ltd., a Texas Limited Partnership (the "Developer" or "Woodmere"). BGM Land Investments, Ltd, a Texas Limited Partnership ("BGM"), is a sister company of Woodmere that purchases and holds the land to be developed by Woodmere. Long Lake, Ltd., a Texas Limited Partnership ("Long Lake"), also a sister company of Woodmere, oversees the construction and sales of homes within the District. Woodmere, BGM, and Long Lake have common management and ownership. See "THE DEVELOPER."

Development within the District.....To date, land within the District has been developed as the single-family subdivisions of Fairpark Village, Sections 1–9, and Briarwood Crossing, Sections 1–6, 8, and 9 (aggregating approximately 306 acres and 1,111 single-family lots). As of March 1, 2019, single-family residential development within the District consisted of 912 completed homes (903 occupied and 9 unoccupied), 39 homes under construction, and 160 vacant developed lots. In addition, the subdivision of Briarwood Crossing, Section 7, is currently under construction for development of approximately 14 acres as approximately 49 single-family lots scheduled for delivery in May 2019. The remainder of lands within the District includes approximately 313 undeveloped but developable acres, and approximately 187 undevelopable acres. See "STATUS OF DEVELOPMENT."

HomebuildersLong Lake is actively building homes in the District under the names of Lake Ridge Builders, Briarwood Homes, Foxwood Builders, and Postwood Homes. Lake Ridge Builders and Briarwood Homes are building homes in the District ranging in price from approximately \$178,990 to \$276,990 and in square footage from approximately 1,514 to 4,036. Foxwood Builders and Postwood Homes is building homes in the District ranging in price from approximately \$169,990 to \$250,990 and in square footage from approximately 1,489 to 4,042. See "THE DEVELOPERS" and "STATUS OF DEVELOPMENT – Homebuilders within the District."

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..... | \$ 153,355,891 (a) |
| 2019 Preliminary Valuation..... | \$ 187,976,217 (b) |
| Direct Debt: | |
| The Outstanding Bonds (as of April 1, 2019)..... | \$ 14,545,000 |
| The Bonds..... | <u>\$ 6,465,000</u> |
| Total..... | \$ 21,010,000 |
| Estimated Overlapping Debt..... | <u>\$ 12,384,748 (c)</u> |
| Total Direct and Estimated Overlapping Debt..... | \$ 33,394,748 |
| Direct Debt Ratios: | |
| As a percentage of 2018 Taxable Assessed Valuation..... | 13.70 % |
| As a percentage of the 2019 Preliminary Valuation..... | 11.18 % |
| Direct and Estimated Overlapping Debt Ratios: | |
| As a percentage of 2018 Taxable Assessed Valuation..... | 21.78 % |
| As a percentage of the 2019 Preliminary Valuation..... | 17.77 % |
| Debt Service Fund Balance (as of March 28, 2019)..... | \$ 1,138,800 (d) |
| Construction Fund Balance (as of March 28, 2019)..... | \$ 58,974 |
| Operating Fund Balance (as of March 28, 2019)..... | \$ 1,846,423 |
| 2018 Tax Rate | |
| Debt Service..... | \$0.670 |
| Maintenance & Operation..... | <u>\$0.760</u> |
| Total..... | \$1.430 |
| Average Annual Debt Service Requirement (2019–2044)..... | \$1,200,285 (e) |
| Maximum Annual Debt Service Requirement (2033)..... | \$1,433,388 (e) |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2019–2044) | |
| Based on 2018 Taxable Assessed Valuation at 95% Tax Collections..... | \$0.83 |
| Based on 2019 Preliminary Valuation at 95% Tax Collections..... | \$0.68 |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2033) | |
| Based on 2018 Taxable Assessed Valuation at 95% Tax Collections..... | \$0.99 |
| Based on 2019 Preliminary Valuation at 95% Tax Collections..... | \$0.81 |
| Single-Family Homes as of March 1, 2019 (includes 39 homes under construction)..... | 951 |

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- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2018, provided by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District as the preliminary value as of January 1, 2019. This value represents the preliminary determination of the taxable value in the District as of January 1, 2019. No taxes will be levied on this preliminary value, which is subject to protest by landowners. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
- (e) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 5 (the "District") of its \$6,465,000 Unlimited Tax Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to (i) the bond resolution adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds (the "Bond Resolution"), (ii) Article XVI, Section 59 of the Texas Constitution, (iii) the general laws of the State of Texas, including particularly Chapters 49 and 54, Texas Water Code, as amended, (iv) an election held within the District on November 7, 2006, and (v) an order issued by the Texas Commission on Environmental Quality ("TCEQ") dated March 15, 2019.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Resolution.

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its development and finances and Woodmere Development Company, Ltd. (the "Developer") and its affiliates. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District at Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027 or during the offering period from the District's Financial Advisor, Robert W. Baird & Co. Incorporated, Attn: Jan Bartholomew, 1331 Lamar Street, Suite 1360, Houston, Texas 77010 upon payment of reasonable copying, mailing and handling charges.

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 Resolution of the Board. A copy of the Bond Resolution may be obtained from the District upon request to Bond Counsel. The Bond Resolution 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 District.

The Bonds will bear interest from May 1, 2019, and will mature on September 1 of the years and in the principal amounts, and bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on September 1, 2019, and semiannually on each March 1 and September 1 thereafter (each an "Interest Payment Date") until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in the denomination of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar for the Bonds is Regions Bank, an Alabama banking corporation, Houston, Texas (the "Paying Agent/Registrar").

Book-Entry-Only System

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

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (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 Securities, 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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 Resolution will be given only to DTC.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2024, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent payment date to the date fixed for redemption.

The Paying Agent/Registrar shall give written notice of redemption, by registered mail, overnight delivery, or other comparably secure means, not less than thirty (30) days prior to the redemption date, to each registered securities depository (and to each national information service that disseminates redemption notices) known to the Paying Agent/Registrar, but neither the failure to give such notice nor any defect therein shall affect the sufficiency of notice given to the Registered Owner as hereinabove stated. The Paying Agent/Registrar may provide written notice of redemption to DTC by facsimile.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent/Registrar is required to select the Bonds of such maturity to be redeemed by lot.

Mandatory Redemption

The Bonds maturing on September 1 in the years 2033, 2035 and 2040 (the “Term Bonds”) are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 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.

\$510,000 Term Bond due September 1, 2033

| Mandatory Redemption Date | Principal Amount |
|----------------------------------|-------------------------|
| September 1, 2032 | \$250,000 |
| September 1, 2033 (maturity) | 260,000 |

\$550,000 Term Bond due September 1, 2035

| Mandatory Redemption Date | Principal Amount |
|----------------------------------|-------------------------|
| September 1, 2034 | \$270,000 |
| September 1, 2035 (maturity) | 280,000 |

\$650,000 Term Bond due September 1, 2040

| Mandatory Redemption Date | Principal Amount |
|----------------------------------|-------------------------|
| September 1, 2039 | \$320,000 |
| September 1, 2040 (maturity) | 330,000 |

On or before 30 days prior to each Mandatory Redemption Date as set forth above, the Registrar shall (i) determine the principal amount of the 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 method of random selection, 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 Resolution. The principal amount of Term Bonds of a maturity to be redeemed shall be reduced, at the discretion of the District, by the principal amount of any Term Bonds of such maturity, which by the 50th day prior to such Mandatory Redemption Date, shall have either been purchased in the open market and delivered or tendered for cancellation by the District or on behalf of the District to the Registrar or optionally redeemed and which, in either case, have not previously been made the basis for a reduction under this sentence.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. 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. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or

transfer. See “Book-Entry-Only System” herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Replacement of Paying Agent/Registrar

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

Source of Payment

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

Payment Record

The Bonds represent the seventh series of unlimited tax bonds issued by the District. The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness.

Authority for Issuance

The Bonds constitute the seventh series of unlimited tax bonds issued by the District for the purpose of purchasing, constructing or otherwise acquiring water, wastewater and drainage facilities to serve the District. The bonds authorized by the resident electors of the District, the amount of bonds issued and the remaining authorized but unissued bonds are as follows:

| <u>Election Date</u> | <u>Purpose</u> | <u>Amount Authorized</u> | <u>Amount Issued</u> | <u>Amount Remaining</u> |
|----------------------|-------------------------|--------------------------|----------------------|-------------------------|
| November 7, 2006 | Water, Sewer & Drainage | \$87,000,000 | \$22,125,000 (a) | \$64,875,000 |
| November 7, 2006 | Parks & Recreation | 3,000,000 | -0- | 3,000,000 |
| November 7, 2006 | Refunding | 60,000,000 | -0- | 60,000,000 |
| November 3, 2009 | Road & Refunding | 10,000,000 | -0- | 10,000,000 |

(a) Includes the Bonds.

The Bonds are issued by the District pursuant to (i) the Bond Resolution; (ii) Article XVI, Section 59 of the Constitution of the State of Texas; and (iii) the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended.

Before the Bonds can be issued, the Attorney General of Texas must initially 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.

Outstanding Bonds

The District has previously issued six series of unlimited tax bonds. Of such previous series of bonds issued by the District, \$14,545,000 principal amount will remain outstanding as of April 1, 2019 (the "Outstanding Bonds").

Short-Term Debt

In connection with the Bonds, the District issued its \$3,267,000 Bond Anticipation Note, Series 2018, dated November 1, 2018 (the "BAN"). The BAN accrues interest at a rate of 2.647% per year (computed on the basis of a 365-day year and the actual days elapsed) and matures on October 31, 2019. Proceeds from the sale of the BAN were used to reimburse the Developer for a portion of the costs associated with the projects shown under "USE AND DISTRIBUTION OF BOND PROCEEDS."

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently has no plans to do so.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the Village of Pleak ("Pleak"), the District must conform to Pleak's Code of Ordinance. However, Pleak may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between Pleak and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "Strategic Partnership Agreement with the Village of Pleak," below, for a description of the terms of the Strategic Partnership Agreement between Pleak and the District.

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

Strategic Partnership Agreement with the Village of Pleak

The District has entered into a Strategic Partnership Agreement ("SPA") with the Village of Pleak ("Pleak") whereby the tracts of land encompassing 5.28 acres to be developed for commercial development were annexed into Pleak for the limited purpose of applying Pleak's Code of Ordinances to the commercial businesses. Pleak imposes a sales and use tax within the annexed tracts on the receipts from the sale and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by Pleak from time to time. Under the SPA, all of the sales-tax revenue generated by the commercial business will be paid to Pleak.

Neither the District nor any owners of taxable property in the District are liable for any present or future debts of Pleak and current and future ad valorem taxes levied by Pleak will not be levied on taxable property in the District that lies within the boundaries of Pleak. Under the SPA, Pleak agrees that it will not annex all or part of the District for full purposes until water, sewer and drainage facilities have been extended to all the land in the District and the Developer has been fully reimbursed.

The Bonds are not obligations of Pleak, and the SPA does not obligate Pleak, either directly or indirectly, to pay the principal of and interest on the Bonds.

Defeasance

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of \$87,000,000 principal amount of unlimited tax bonds to purchase or construct water, sanitary sewer and drainage facilities, and could authorize additional amounts. After the issuance of the Bonds, the District will have \$64,875,000 principal amount of unlimited tax bonds remaining authorized but unissued for such purpose. According to the District's Engineer, said remaining principal amount of bonds will be sufficient to fully develop the District's water, sewer, and drainage facilities required to serve all the land within the District.

A portion of the proceeds of the Bonds will be used to reimburse the Developer for a portion of the funds advanced to date, but after such reimbursement, there will be approximately \$21,900,000 in advanced funds or costs, which will need to be reimbursed by the District in the future. The issuance of additional utility bonds is also subject to TCEQ authorization.

The District's voters have additionally authorized the issuance of (i) \$3,000,000 unlimited tax bonds for parks and recreational purposes, all of which remains authorized and unissued, (ii) \$60,000,000 unlimited tax bonds for refunding purposes, all of which remains authorized and unissued, and (iii) \$10,000,000 unlimited tax bonds for road facilities and refunding bonds issued for road facilities, all of which remains authorized and unissued, and could authorize additional amounts. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board and, for utility and parks and recreational bonds, the TCEQ).

Additional tax bonds may be authorized by District'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 therefore and to issue bond anticipation notes and tax anticipation notes.

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186, Texas Water Code and Chapter 1204, Texas Government Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose other, more stringent, requirements in order for the Bonds to be legal investments for such entity's funds or to be eligible to serve as collateral for their funds.

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer for a portion of the construction costs set out below. Proceeds from the Bonds will also be used to reimburse the Developer for the remaining construction costs that were not reimbursed by the BAN, to pay developer interest, and to pay to costs of issuance associated with the BAN and the Bonds.

| <u>Construction Costs</u> | <u>Amount</u> |
|---|----------------------|
| A. Developer Contribution Items | |
| 1. Fairpark Village Section 3, Phase 1 – W, WW & D | \$ 282,660 |
| 2. Fairpark Village Section 4, Phase 1 – W, WW & D | 309,774 |
| 3. Fairpark Village Section 2, Phase 2 – W, WW & D | 294,923 |
| 4. Briarwood Crossing Detention No. 2 | 290,623 |
| 5. Briarwood Crossing Section 1, Phase 1 – W, WW & D | 917,099 |
| 6. Briarwood Crossing Section 1, Phase 2 – W, WW & D | 271,430 |
| 7. Briarwood Crossing Section 1, Phase 3 – W, WW & D | 448,792 |
| 8. Briarwood Crossing Section 2 – W, WW & D | 372,777 |
| 9. Storm Water Pollution Prevention Plan (Items 2, 3, & 5-8) | 148,597 |
| 10. Engineering (Items 2-8 and Fairpark Village Detention No. 2, Phase 1) | <u>517,186</u> |
| Total Developer Contribution Items | \$ 3,853,861 |
| B. District Items | |
| 1. Land Acquisition | |
| a) Fairpark Village Detention No. 2, Phase 1 | \$ 201,619 |
| b) Fairpark Village Detention No. 2, Phase 2 | 147,614 |
| c) Briarwood Crossing Detention No. 2 | 99,312 |
| d) Briarwood Crossing Detention No. 3 | <u>265,132</u> |
| Total District Items | <u>\$ 713,677</u> |
| Total Construction Costs (89.55% of Bond Issue Requirement) | \$ 4,567,538 |
| <u>Non-Construction Costs</u> | |
| A. Legal Fees (2.62%) | \$ 169,300 |
| B. Fiscal Agent Fees (2%) | 129,300 |
| C. BAN Interest | 48,096 |
| D. Developer Interest | 900,969 |
| E. Bond Discount | 193,950 |
| F. Bond Issuance Expenses | 39,961 |
| G. BAN Issuance Expenses | 75,554 |
| H. Operating Costs (Developer Advances) | 229,125 |
| I. Bond Application Report Costs | 55,000 |
| J. Attorney General Fee (0.10% or a maximum of \$9,500) | 6,465 |
| K. TCEQ Bond Issuance Fee (0.25%) | 16,163 |
| L. Contingency (a) | <u>33,579</u> |
| Total Non-Construction Costs | \$ 1,897,462 |
| TOTAL BOND ISSUE REQUIREMENT | \$ 6,465,000 |

(a) Represents the difference between the estimated and actual amounts of BAN interest.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by 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.

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality, on August 5, 1974. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District is authorized to construct and finance certain road facilities. The District may purchase and operate park and recreational facilities within the District. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ and is located primarily within the extraterritorial jurisdiction of the Pleak.

Description

Fort Bend County Municipal Utility District No. 5, a political subdivision of the State of Texas, is located wholly within Fort Bend County, Texas, approximately 40 miles southwest of Houston's central business district. The District lies at the intersection of Ustinik Road and Texas State Highway 36. The District consists of approximately 820 acres. Approximately 748 acres of the land within the District is within the exclusive extraterritorial jurisdiction (the "ETJ") of the Pleak and approximately 72 acres of land within the District lies within the corporate limits of the Pleak.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. None of the directors reside, but all of the directors own property, in the District. Directors are elected in even-numbered years for staggered, four-year terms. The present members and officers of the Board and their positions are listed below:

| <u>Name</u> | <u>Position</u> | <u>Term Expires May</u> |
|-----------------------|--------------------------|-------------------------|
| Margaret F. Greenwood | President | 2020 |
| Gary P. Smith | Vice President | 2020 |
| Bobby J. Adams | Secretary | 2022 |
| Nancy E. Hedrick | Assistant Vice President | 2022 |
| John Metzger | Assistant Secretary | 2022 |

The District engages the following companies and individuals for certain services as follows:

Tax Assessor/Collector: The District's Tax Assessor/Collector is Tax Tech Inc. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Fort Bend Central Appraisal District and bills and collects such levy.

Bookkeeper: The District contracts with McLennan and Associates, L.P. for bookkeeping services.

Utility System Operator: The District's operator is Municipal Operations & Consulting, Inc.

Engineer: The consulting engineer retained by the District in connection with the design and construction of the District's facilities is R.G. Miller Engineers, Inc. (the "Engineer").

Auditor: The financial statements of the District as of July 31, 2018, and for the year then ended, included in this Official Statement, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for the District’s audited financial statements.

Financial Advisor: The District has engaged Robert W. Baird & Co. Incorporated, Houston, Texas (the “Financial Advisor”), as Financial Advisor to the District. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

Legal Counsel: The District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the District’s Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. Allen Boone Humphries Robinson LLP, Houston, Texas, also serves as the District’s general counsel.

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PHOTOGRAPHS TAKEN WITHIN THE DISTRICT



AERIAL OF THE DISTRICT



THE DEVELOPER

The Role of a Developer

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

Description of the Developer

The current developer of land located within the District is Woodmere Development Company Ltd., a Texas limited partnership whose general partner is Woodmere GP, LLC (the "Developer" or "Woodmere"). BGM Land Investments, Ltd, a Texas limited partnership whose general partner is G.P. Landvest, LLC ("BGM"), is a sister company of Woodmere that purchases and holds the land to be developed by Woodmere. Long Lake, Ltd., a Texas Limited Partnership ("Long Lake"), also a sister company of Woodmere, oversees the sales and construction of homes within the District. Woodmere, BGM, and Long Lake (collectively, the "Developing Entities") are all under common management and ownership. Approximately 150 acres of undeveloped land located in the District is currently owned by the Developing Entities. It is anticipated that such currently undeveloped acreage will be developed in the future for single-family residential usage as future Fairpark Village and Briarwood Crossing development sections. See "STATUS OF DEVELOPMENT" and "TAX DATA - Principal Taxpayers."

Developer Financing

Woodmere currently has no development loans outstanding.

BGM has purchased its land in the District with a combination of seller financing, and loans from Prosperity Bank, Patriot Bank and Westbound Bank. According to representatives of BGM, as of the date hereof, BGM is in compliance with all material terms of each loan agreement.

Proceeds from the sale of the Bonds are payable to Woodmere and are not pledged to any lender.

STATUS OF DEVELOPMENT

Status of Development within the District

To date, land within the District has been developed as the single-family subdivisions of Fairpark Village, Sections 1–9, and Briarwood Crossing, Sections 1–6, 8, and 9 (aggregating approximately 306 acres and 1,111 single-family lots). As of March 1, 2019, single-family residential development within the District consisted of 912 completed homes (903 occupied and 9 unoccupied), 39 homes under construction, and 160 vacant developed lots. In addition, the subdivision of Briarwood Crossing, Section 7, is currently under construction for development of approximately 14 acres as approximately 49 single-family lots scheduled for delivery in May 2019. The remainder of lands within the District includes approximately 313 undeveloped but developable acres, and approximately 187 undevelopable acres. The following is a table summarizing the approximate status of construction of single-family detached housing within the District as of March 1, 2019.

| | <u>Acreeage</u> | <u>Lots</u> | <u>Homes Completed</u> | <u>Homes Under Construction</u> | <u>Vacant Lots</u> |
|---------------------------|-----------------|--------------|----------------------------|---|--------------------|
| Fairpark Village | | | | | |
| Section 1 | 36.06 | 73 | 73 | 0 | 0 |
| Section 2 | 17.50 | 75 | 74 | 1 | 0 |
| Section 3 | 18.41 | 81 | 81 | 0 | 0 |
| Section 4 | 21.79 | 100 | 100 | 0 | 0 |
| Section 5 | 25.57 | 76 | 42 | 9 | 25 |
| Section 6 | 12.51 | 51 | 51 | 0 | 0 |
| Section 7 | 11.90 | 47 | 47 | 0 | 0 |
| Section 8 | 15.48 | 55 | 35 | 6 | 14 |
| Section 9 | <u>11.97</u> | <u>54</u> | <u>0</u> | <u>2</u> | <u>52</u> |
| Subtotal | 171.21 | 612 | 503 | 18 | 91 |
| Briarwood Crossing | | | | | |
| Section 1 | 40.78 | 162 | 162 | 0 | 0 |
| Section 2 | 13.25 | 53 | 53 | 0 | 0 |
| Section 3 | 20.54 | 65 | 65 | 0 | 0 |
| Section 4 | 18.39 | 62 | 62 | 0 | 0 |
| Section 5 | 3.39 | 10 | 1 | 1 | 8 |
| Section 6 | 13.97 | 48 | 21 | 11 | 16 |
| Section 7 (a) | 13.52 | 49 | 0 | 0 | 0 |
| Section 8 | 10.70 | 45 | 42 | 3 | 0 |
| Section 9 | <u>13.96</u> | <u>54</u> | <u>3</u> | <u>6</u> | <u>45</u> |
| Subtotal | 148.48 | 548 | 409 | 21 | 69 |
| Total | 319.69 | 1,160 | 912 | 39 | 160 |

(a) Currently under development.

Homebuilders within the District

Homebuilding within the District began in 2008. Long Lake is actively building homes in the District under the names of Lake Ridge Builders, Briarwood Homes, Foxwood Builders, and Postwood Homes. Lake Ridge Builders and Briarwood Homes are building homes in the District ranging in price from approximately \$178,990 to \$276,990 and in square footage from approximately 1,514 to 4,036. Foxwood Builders and Postwood Homes is building homes in the District ranging in price from approximately \$169,990 to \$250,990 and in square footage from approximately 1,489 to 4,042. See “THE DEVELOPER.”

DISTRICT DEBT

General

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

| | |
|---|--------------------------|
| 2018 Taxable Assessed Valuation..... | \$ 153,355,891 (a) |
| 2019 Preliminary Valuation..... | \$ 187,976,217 (b) |
| Direct Debt: | |
| The Outstanding Bonds (as of April 1, 2019)..... | \$ 14,545,000 |
| The Bonds | <u>\$ 6,465,000</u> |
| Total..... | \$ 21,010,000 |
| Estimated Overlapping Debt..... | <u>\$ 12,458,858 (c)</u> |
| Total Direct and Estimated Overlapping Debt..... | \$ 33,394,748 |
| Direct Debt Ratios: | |
| As a percentage of 2018 Taxable Assessed Valuation..... | 13.70 % |
| As a percentage of the 2019 Preliminary Valuation | 11.18 % |
| Direct and Estimated Overlapping Debt Ratios: | |
| As a percentage of 2018 Taxable Assessed Valuation..... | 21.78 % |
| As a percentage of the 2019 Preliminary Valuation | 17.77 % |

-
- (a) Certified taxable assessed value of the District as of January 1, 2018, as provided by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the Appraisal District as the preliminary value as of January 1, 2019. This value represents the preliminary determination of the taxable value in the District as of January 1, 2019. No taxes will be levied on this preliminary value, which is subject to protest by landowners. See "TAXING PRODECURES."
 - (c) See "Estimated Overlapping Debt Statement" below.

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Estimated Overlapping Debt Statement

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

| Taxing Jurisdiction | Outstanding Debt March 31 2019 | Percent | Overlapping Amount |
|---|-----------------------------------|---------|-----------------------|
| Fort Bend County | \$560,744,527 | 0.23% | \$ 1,285,567 |
| Lamar Consolidated Independent School District | \$1,039,230,000 | 1.07% | <u>\$ 11,099,181</u> |
| Total Estimated Overlapping Debt | | | \$ 12,384,748 |
| Direct Debt (a) | | | <u>\$ 21,010,000</u> |
| Total Direct and Estimated Overlapping Debt (a) | | | \$ 33,394,748 |

(a) Includes the Bonds.

Debt Ratios

| | 2018 Assessed Valuation | 2019 Preliminary Valuation |
|---|----------------------------|-------------------------------|
| Direct Debt (a) | 13.70% | 11.18% |
| Total Direct and Estimated Overlapping Debt (a) | 21.78% | 17.77% |

(a) Includes the Bonds.

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Debt Service Requirements

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

| Calendar Year | Outstanding Debt Service | Plus: The Bonds | | | Total Debt Service |
|------------------|-----------------------------|-----------------|-------------|--------------|-----------------------|
| | | Principal | Interest | Debt Service | |
| 2019 | 713,358 | - | \$68,700 | \$68,700 | \$782,058 |
| 2020 | 1,003,628 | \$165,000 | 206,100 | 371,100 | 1,374,728 |
| 2021 | 1,008,078 | 170,000 | 198,469 | 368,469 | 1,376,546 |
| 2022 | 1,016,528 | 180,000 | 190,606 | 370,606 | 1,387,134 |
| 2023 | 1,023,588 | 185,000 | 182,281 | 367,281 | 1,390,869 |
| 2024 | 1,014,088 | 190,000 | 173,725 | 363,725 | 1,377,813 |
| 2025 | 1,029,506 | 195,000 | 164,938 | 359,938 | 1,389,444 |
| 2026 | 1,033,259 | 205,000 | 160,794 | 365,794 | 1,399,053 |
| 2027 | 1,036,574 | 210,000 | 156,438 | 366,438 | 1,403,011 |
| 2028 | 1,042,831 | 220,000 | 151,713 | 371,713 | 1,414,544 |
| 2029 | 1,042,240 | 225,000 | 146,763 | 371,763 | 1,414,003 |
| 2030 | 1,045,598 | 235,000 | 140,013 | 375,013 | 1,420,610 |
| 2031 | 1,047,331 | 240,000 | 132,963 | 372,963 | 1,420,294 |
| 2032 | 1,047,113 | 250,000 | 125,763 | 375,763 | 1,422,875 |
| 2033 | 1,055,125 | 260,000 | 118,263 | 378,263 | 1,433,388 |
| 2034 | 1,051,394 | 270,000 | 110,463 | 380,463 | 1,431,856 |
| 2035 | 971,044 | 280,000 | 102,363 | 382,363 | 1,353,406 |
| 2036 | 773,756 | 290,000 | 93,963 | 383,963 | 1,157,719 |
| 2037 | 774,656 | 295,000 | 85,263 | 380,263 | 1,154,919 |
| 2038 | 779,581 | 310,000 | 76,413 | 386,413 | 1,165,994 |
| 2039 | 668,331 | 320,000 | 67,113 | 387,113 | 1,055,444 |
| 2040 | 675,313 | 330,000 | 57,113 | 387,113 | 1,062,425 |
| 2041 | 485,788 | 340,000 | 46,800 | 386,800 | 872,588 |
| 2042 | 187,869 | 355,000 | 35,750 | 390,750 | 578,619 |
| 2043 | 186,525 | 365,000 | 24,213 | 389,213 | 575,738 |
| 2044 | - | 380,000 | 12,350 | 392,350 | 392,350 |
| Total | \$22,005,589 | \$6,465,000 | \$3,029,325 | \$9,494,325 | \$31,207,423 |

Average Annual Debt Service Requirement (2019–2044) \$1,200,285
 Maximum Annual Debt Service Requirement (2033)..... \$1,433,388

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds, and any future tax-supported bonds that the District may issue from time to time as authorized. Taxes are levied by the District each year against the District'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 Resolution 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 District's tax base, its debt service requirements, and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes for operation and maintenance purposes in an amount not to exceed \$1.50 per \$100 of assessed valuation as authorized by the District's voters. The Board levied a 2018 tax rate of \$0.76 per \$100 of assessed valuation for operation and maintenance purposes and a debt service tax rate of \$0.67 per \$100 of assessed valuation.

Tax Rate Limit

| | |
|---------------|--|
| Debt Service: | Unlimited (no legal limit as to rate or amount). |
| Maintenance: | \$1.50 per \$100 of assessed valuation. |

Debt Service Tax

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

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for payment of the Bonds authorized by the Bond Resolution shall be deposited, as collected.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On November 7, 2006, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. The District levied a maintenance tax for 2018 at the rate of \$0.76 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

Tax Exemption

As discussed in the section entitled "TAXING PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation.

Additional Penalties

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

Historical Tax Collections

The following table illustrates the collection history of the District for the 2011–2018 tax years:

| Tax Year | Assessed Valuation | Tax Rate (a) | Adjusted Levy | Collections Current Year (b) | Current Year Ended 9/30 | Collections 02/28/19 |
|----------|--------------------|--------------|---------------|------------------------------|-------------------------|----------------------|
| 2011 | \$34,402,705 | \$1.50 | \$516,041 | 99.42% | 2012 | 100.00% |
| 2012 | 38,913,297 | 1.50 | 583,699 | 99.96 | 2013 | 100.00 |
| 2013 | 47,460,065 | 1.50 | 711,901 | 99.89 | 2014 | 100.00 |
| 2014 | 60,998,992 | 1.50 | 914,985 | 99.98 | 2015 | 100.00 |
| 2015 | 82,142,835 | 1.50 | 1,232,143 | 99.79 | 2016 | 100.00 |
| 2016 | 107,525,755 | 1.48 | 1,591,381 | 99.46 | 2017 | 99.78 |
| 2017 | 130,544,107 | 1.48 | 1,932,053 | 99.45 | 2018 | 99.79 |
| 2018 | 153,355,891 | 1.43 | 2,192,989 | 97.43 | 2019 | 97.43 |

(a) Includes a tax for maintenance and operation purposes. See "Tax Rate Distribution" below.

(b) For tax years 2011–2017, represents collections from October 1 of each respective tax year through September 30 of the year thereafter. For the 2018 tax year, represents collections from October 1, 2018, through February 28, 2019.

Tax Rate Distribution

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Debt Service | \$0.670 | \$0.750 | \$0.680 | \$0.550 | \$0.770 | \$0.750 |
| Maintenance | <u>0.760</u> | <u>0.730</u> | <u>0.800</u> | <u>0.950</u> | <u>0.730</u> | <u>0.750</u> |
| | \$1.430 | \$1.480 | \$1.480 | \$1.500 | \$1.500 | \$1.500 |

Analysis of Tax Base

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

| Property Type | 2018 Assessed Valuation | 2017 Assessed Valuation | 2016 Assessed Valuation | 2015 Assessed Valuation | 2014 Assessed Valuation |
|---------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Land | \$39,341,150 | \$34,529,750 | \$25,587,690 | \$21,313,070 | \$19,855,004 |
| Improvements | 116,419,875 | 96,881,695 | 82,371,185 | 61,217,605 | 41,292,195 |
| Personal | 783,350 | 651,060 | 516,870 | 473,430 | 383,913 |
| Exemption | <u>(3,188,484)</u> | <u>(1,518,398)</u> | <u>(949,990)</u> | <u>(861,270)</u> | <u>(532,120)</u> |
| Total | \$153,355,891 | \$130,544,107 | \$107,525,755 | \$82,142,835 | \$60,998,992 |

Principal Taxpayers

The following represents the principal taxpayers, type of property, and assessed values as of January 1, 2018:

| Taxpayer | Type of Property | Assessed Valuation 2018 Tax Roll |
|---|--------------------------|----------------------------------|
| BGM Land Investments LTD (a) | Land & Improvements | \$4,615,325 |
| Woodmere Development Co LTD (a) | Land & Improvements | 3,540,210 |
| Centerpoint Energy Electric | Personal Property | 543,000 |
| Long Lake LTD (a) | Land & Personal Property | 507,190 |
| Homeowner | Land & Improvements | 325,770 |
| Homeowner | Land & Improvements | 308,490 |
| Homeowner | Land & Improvements | 301,130 |
| Homeowner | Land & Improvements | 299,770 |
| Homeowner | Land & Improvements | 296,160 |
| Homeowner | Land & Improvements | <u>294,800</u> |
| Total | | \$11,031,845 |
| Percentage of District's 2018 Assessed Valuation..... | | 7.19% |

(a) See "THE DEVELOPER."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the District’s taxable assessed valuation as of January 1, 2018 (\$153,355,891) or the 2019 Preliminary Valuation (\$187,976,217). The following further assumes collection of 95% of taxes levied, no application of funds on hand, and the sale of no additional bonds:

| | |
|---|-------------|
| Average Annual Debt Service Requirement (2019–2044) | \$1,200,285 |
| Tax Rate of \$0.83 on the 2018 Assessed Valuation produces | \$1,209,211 |
| Tax Rate of \$0.68 on the 2019 Preliminary Valuation produces | \$1,214,326 |
| Maximum Annual Debt Service Requirement (2033)..... | \$1,433,388 |
| Tax Rate of \$0.99 on the 2018 Assessed Valuation produces | \$1,442,312 |
| Tax Rate of \$0.81 on the 2019 Preliminary Valuation produces | \$1,446,477 |

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

| <u> Taxing Jurisdiction </u> | <u> 2018 Tax Rate Per \$100 of A.V. </u> |
|--|--|
| The District | \$1.430000 |
| Lamar Consolidated Independent School District | \$1.390000 |
| Fort Bend County | \$0.445000 |
| Fort Bend County Emergency Services District No. 6 | \$0.100000 |
| Fort Bend Drainage | <u>\$0.019000</u> |
| Estimated Total Tax Rate | \$3.384000 |

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS – Future Debt”), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under “THE BONDS – Source of Payment.” Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. See “TAX DATA – Maintenance Tax.”

Property Tax Code and County-Wide Appraisal Districts

Title I of Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized 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 responsibility for reviewing and equalizing the values established by the appraisal district. The Fort Bend Central Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values will be subject to review and change by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board for the Appraisal District, will be used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the

obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by before July 1.

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

Tax Abatement

Fort Bend County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. As of September 1, 1999, each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, Fort Bend County has not designated any part of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal Districts at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Boards, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use,

open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are prorated for the year the disaster occurred. The taxing units assess taxes prior to the date the disaster occurred based upon market values as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the

person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

THE SYSTEM

Regulation

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

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

Description of the System

- Water Supply and Distribution -

The District owns and operates a 1,500 gallons per minute ("gpm") water well ("Water Well No. 1"). Water Well No. 1 has permitted annual withdrawal of 45 million gallons. The District water supply system also consists of: two (2) 15,000 gallon pressure tanks, one (1) 287,000 gallon ground storage tank, three (3)

booster pumps totaling 3,000 gpm, and one (1) 600kW diesel generator. The total capacity of the District's existing water supply system is 1,346 ESFCs. The District has an emergency water line interconnect agreement with the City of Rosenberg. The interconnect is for emergency use only and is normally closed.

– *Wastewater* –

Wastewater treatment is provided by an interim 350,000 gallon per day package plant wastewater treatment plant ("WWTP") that is currently capable of serving 1,167 ESFCs. The District currently leases the interim WWTP from the AUC Group with an option to purchase.

– *Drainage* –

The northern portion of the District naturally drains towards Coon Creek to the west and Fort Bend County Drainage Ditch IIB4a to the east. This ditch bisects the southern portion of the District, eventually flowing into Seabourne Creek, just west of the WWTP. The western portion naturally drains towards Big Creek which is not located within the District. The drainage system improvements consist of storm sewer systems and detention basins to serve the District's storm water runoff. Approximately 65 acres within the District lie within the 100-year floodplain; although, none of the developed lots lie within the 100-year floodplain.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency ("FEMA") has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the "100-year flood plain", is depicted on these maps. The 100-year flood plain as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, approximately 65 acres within the District lie within the 100-year floodplain; although, none of the developed lots lie within the 100-year floodplain.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. The District is located within the Richmond/Rosenberg Sub Area of the Subsidence District's jurisdiction. The Cities of Rosenberg and Richmond formed the Rosenberg-Richmond Local Government Corporation to plan and implement a regional surface water utility system.

Historical Operations of the System

The following is a summary of the District's Operating Fund for the last five years. The figures for the fiscal years ended July 31, 2015, through July 31, 2018, were obtained from the District's audited financial statements, reference to which is hereby made. See "APPENDIX A." The figures provided below for the seven-month period ended February 28, 2019, are unaudited and have been compiled by the Financial Advisor for inclusion herein based on unaudited reports from the District's bookkeeper. The District is required by statute to have a certified public accountant audit its financial statements annually, which audited financial statements are required to be filed with the TCEQ.

| Revenues | For Period Ended | | | | |
|--------------------------------|------------------|----------------|--------------|--------------|---------------|
| | 02/28/19 (a) | 07/31/18 | 07/31/17 | 07/31/16 | 07/31/15 |
| Property Taxes | \$1,037,855 | \$952,648 | \$853,897 | \$780,404 | \$443,373 |
| Water Service | 75,053 | 121,199 | 101,110 | 92,333 | 71,822 |
| Sewer Service | 211,205 | 322,038 | 271,268 | 230,795 | 177,866 |
| Regional Water Fee | 123,745 | 195,189 | 151,439 | 115,288 | 56,058 |
| Penalty & Interest | 8,115 | 11,507 | 9,787 | 7,517 | 6,303 |
| Tap Connection and Inspection | 116,555 | 89,361 | 88,371 | 82,478 | 69,219 |
| Investment Income | 10,671 | 9,567 | 4,736 | 1,136 | 205 |
| Other Income | <u>3,462</u> | <u>95,034</u> | <u>3,750</u> | <u>3,128</u> | <u>2,118</u> |
| Total | \$1,586,661 | \$1,796,543 | \$1,484,358 | \$1,313,079 | \$826,964 |
| Expenditures | | | | | |
| Service Operations: | | | | | |
| Purchased Services | \$0 | \$0 | \$2,543 | \$15,838 | \$0 |
| Regional Water Fee | 108,638 | 184,870 | 142,690 | 114,938 | 60,417 |
| Lease Payments | 68,600 | 117,600 | 108,000 | 60,000 | 60,000 |
| Professional Fees | 149,177 | 135,269 | 121,447 | 115,172 | 94,991 |
| Contracted Services | 198,117 | 257,996 | 196,223 | 163,710 | 141,304 |
| Utilities | 52,754 | 91,343 | 84,302 | 65,231 | 60,820 |
| Repairs & Maintenance | 240,370 | 531,238 | 299,733 | 281,295 | 200,530 |
| Other Expenditures | 49,168 | 84,134 | 84,110 | 65,542 | 56,792 |
| Tap Connections | 86,750 | 53,450 | 50,036 | 46,850 | 37,075 |
| Capital Outlay | <u>13,790</u> | <u>123,614</u> | <u>0</u> | <u>8,700</u> | <u>33,060</u> |
| Total | \$967,364 | \$1,579,514 | \$1,089,084 | \$937,276 | \$744,989 |
| Net Revenues | \$619,297 | \$217,029 | \$395,274 | \$375,803 | \$81,975 |
| Other Financing Sources (Uses) | \$0 | (\$52,000) | \$0 | \$35,810 | \$0 |
| Beginning Fund Balance | \$1,140,514 | \$975,485 | \$580,211 | \$168,598 | \$86,623 |
| Ending Fund Balance | \$1,759,811 | \$1,140,514 | \$975,485 | \$580,211 | \$168,598 |

(a) Unaudited.

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Fort Bend County, Texas; Pleak; or any political subdivision other than the District. The Bonds are secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development within the District is directly related to the vitality of the single-family housing industry in the Houston metropolitan area. New single-family construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District. See "STATUS OF DEVELOPMENT – Status of Development within the District."

Location and Access: The District is located in an outlying area of the Houston metropolitan area, approximately 40 miles southwest from the central business district of the City of Houston, Texas, approximately 17 miles southwest from the central business district of the City of Sugar Land, Texas, and approximately 5 miles south from the central business district of the City of Rosenberg, Texas. Many of the single-family developments with which the District competes have been significantly developed and levy lower tax rates. As a result, particularly during times of increased competition, the Developer and homebuilders within the District may be at a competitive disadvantage to the developers and homebuilders in other single-family projects located closer to major urban centers or more mature developments. See "THE DISTRICT" and "STATUS OF DEVELOPMENT."

Principal Landowners' Obligations to the District: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA – Principal Taxpayers," the District's ten principal taxpayers in 2018 owned property located in the District, the aggregate assessed valuation of which comprised approximately 7.194% of the District's total assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. The District levied a debt service tax rate of \$0.67 per \$100 of assessed valuation and a maintenance tax rate of \$0.76 per \$100 of assessed valuation for the 2018 tax year.

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition for new single-family home sales from other developments, there are numerous previously owned single-family homes in more established neighborhoods closer to the cities of Houston, Sugar Land, or Rosenberg that are for

sale. Such existing developments could represent additional competition for new development and homebuilding proposed to be constructed within the District.

The competitive position of the Developer in the sale of land and the sale of residences is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Developer Under No Obligation to the District: The Developer has informed the District of its current plans to continue to develop land in the District for residential purposes and commercial purposes. The Developer has no current plans to sell its land within the District to other developers. However, the Developer is not obligated to implement such plan on any particular schedule or continue to implement such plan at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowners to whom a party may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer (see "TAX DATA – Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developer will be or what effect, if any, such conditions may have on its ability to pay taxes. See "THE DEVELOPERS" and "STATUS OF DEVELOPMENT."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2018 Assessed Valuation of the District is \$153,355,891 (see "TAX DATA") and the 2019 Preliminary Valuation is \$187,976,217. After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,433,388 (2033) and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,200,285 (2019–2044). Assuming no increase or decrease from the 2018 Assessed Valuation and no use of funds on hand, tax rates of \$0.99 and \$0.83 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase or decrease from the 2019 Preliminary Valuation and no use of funds on hand, tax rates of \$0.81 and \$0.68 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. See "DISTRICT DEBT – Debt Service Requirements" and "TAX DATA – Tax Rate Calculations."

Hurricane Harvey

The Greater Houston area sustained widespread damage as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the Engineer, Hurricane Harvey caused no damage to the District's water distribution, wastewater collection and drainage facilities (the "System") and there was no interruption to water and sewer service in the District. Further, although streets in the District experienced widespread flooding, the District is not aware of any homes in the District that experienced structural flooding or other material damage as a result of Hurricane Harvey. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region.

Potential Impact of Natural Disaster

The District 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. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within six (6) months for commercial property and two (2) years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two (2) other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six (6) years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (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 debt; 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 municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District'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 District 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 District.

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

Environmental Regulation

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

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

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

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

The HGB area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe

nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

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

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

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

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) 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 TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") 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. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a 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 District, could potentially be subject to additional restrictions and requirements, including permitting requirements

Subsidence District

The District is within the Fort Bend Subsidence District (the "Subsidence District") which regulates the withdrawal of ground water within its jurisdiction. The District's authority to pump ground water from its

wells is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of Fort Bend County to convert a portion of their water supply to surface water under various schedules. The issuance of additional bonds by the District at some time in the future in an undetermined amount may be necessary to meet these requirements. The District has a Groundwater Reduction Plan Participation Agreement with the City of Rosenberg. See "THE SYSTEM – Subsidence and Conversion to Surface Water Supply."

Future Debt

Following the issuance of the Bonds, the District will have \$64,875,000 principal amount remaining in authorized but unissued unlimited tax bonds for the purpose of purchasing or constructing water, sanitary sewer and drainage facilities, \$3,000,000 in authorized but unissued unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities, \$60,000,000 in authorized but unissued unlimited tax bonds for refunding purposes, and \$10,000,000 in authorized but unissued unlimited tax bonds for road facilities and refunding of the same. The District reserves in the Bond Resolution the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds. A portion of the proceeds of the Bonds will be used to reimburse the Developer for a portion of the funds advanced to date, but after such reimbursement, there will be approximately \$21,900,000 in advanced funds or costs, which will need to be reimbursed by the District in the future. The issuance of additional utility bonds is also subject to authorization by the TCEQ. See "THE BONDS – Issuance of Additional Debt."

Additional tax bonds may be authorized by District'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 Resolution imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the district may be on a parity with the Bonds.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the security of the Bonds as an investment, nor has or will the Attorney General of Texas pass upon the adequacy or accuracy of the information contained in this Official Statement.

Changes in Tax Legislation

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

2019 Legislative Session

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature may 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, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

Bond Insurance Risk Factors

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

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

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

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

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

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

LEGAL MATTERS

Legal Opinions

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

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

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attaching the Bonds; restraining or enjoining the issuance, 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 or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

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

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.

TAX MATTERS

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

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 proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law and based upon 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 an owner who has purchased such Original Issue Discount Bond 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing discussion assumes, in reliance upon certain representations of the Underwriter, that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Underwriter will be based upon records or facts the Underwriter had no reason to believe were not correct.

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 date 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 Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the 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 and 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 that 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 Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Qualified Tax-Exempt Obligations

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

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

and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2019.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB through EMMA annually.

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

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (“SEC”). The updated information will include audited financial statements, if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District 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 Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District’s current fiscal year end is July 31. Accordingly, it must provide updated information by January 31, in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify EMMA.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR §240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its

terms, if material; (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 District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of Bonds at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an Underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has been in material compliance with its prior continuing disclosure agreement in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District’s records, the Developer, the Engineer, the Tax Assessor/Collector, the Fort Bend Central 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 DISTRICT - General," "LEGAL MATTERS - Legal Opinions," "TAX DATA - Tax Exemption," "TAX MATTERS - Tax Accounting Treatment of Original Issue Discount Bonds," "TAX MATTERS - Qualified Tax-Exempt Obligations," 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 or conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon 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 DISTRICT" 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 section captioned "TAX DATA" has been provided by the Fort Bend Central Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Updating the Official Statement

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

Certification as to Official Statement

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

Concluding Statement

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

and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Fort Bend County Municipal Utility No. 5, as of the date shown on the first page hereof.

/s/ Margaret F. Greenwood
President, Board of Directors
Fort Bend County Municipal Utility District No. 5

ATTEST:

/s/ Bobby J. Adams
Secretary, Board of Directors
Fort Bend County Municipal Utility District No. 5

APPENDIX A
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT

Fort Bend County Municipal Utility District No. 5

Fort Bend County, Texas

Independent Auditor's Report and Financial Statements

July 31, 2018



Fort Bend County Municipal Utility District No. 5
July 31, 2018

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Independent Auditor's Report

Board of Directors
Fort Bend County Municipal Utility District No. 5
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 5 (the District), as of and for the year ended July 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2018, and the respective changes in financial position thereof 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 budgetary comparison schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
December 10, 2018

Fort Bend County Municipal Utility District No. 5

Management's Discussion and Analysis

July 31, 2018

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Fort Bend County Municipal Utility District No. 5
Management's Discussion and Analysis (Continued)
July 31, 2018

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Fort Bend County Municipal Utility District No. 5
Management's Discussion and Analysis (Continued)
July 31, 2018

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

| | 2018 | 2017 |
|----------------------------------|----------------|----------------|
| Current and other assets | \$ 2,516,761 | \$ 2,136,942 |
| Capital assets | 24,374,857 | 21,895,609 |
| Total assets | \$ 26,891,618 | \$ 24,032,551 |
| Long-term liabilities | \$ 29,151,442 | \$ 26,503,019 |
| Other liabilities | 426,990 | 318,505 |
| Total liabilities | 29,578,432 | 26,821,524 |
| Net position: | | |
| Net investment in capital assets | (4,767,960) | (4,602,029) |
| Restricted | 932,111 | 828,867 |
| Unrestricted | 1,149,035 | 984,189 |
| Total net position | \$ (2,686,814) | \$ (2,788,973) |

The total net position of the District increased by \$102,159, or about 4 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

| | 2018 | 2017 |
|----------------------|--------------|--------------|
| Revenues: | | |
| Property taxes | \$ 1,931,632 | \$ 1,591,597 |
| Charges for services | 638,426 | 523,817 |
| Other revenues | 139,341 | 438,793 |
| Total revenues | 2,709,399 | 2,554,207 |

Fort Bend County Municipal Utility District No. 5
Management's Discussion and Analysis (Continued)
July 31, 2018

Summary of Changes in Net Position (Continued)

| | 2018 | 2017 |
|---------------------------------|----------------|----------------|
| Expenses: | | |
| Services | \$ 1,546,928 | \$ 1,150,252 |
| Depreciation | 503,317 | 474,367 |
| Debt service | 556,995 | 787,599 |
| Total expenses | 2,607,240 | 2,412,218 |
| Change in net position | 102,159 | 141,989 |
| Net position, beginning of year | (2,788,973) | (2,930,962) |
| Net position, end of year | \$ (2,686,814) | \$ (2,788,973) |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended July 31, 2018, were \$2,284,909, an increase of \$287,167 from the prior year.

The general fund's fund balance increased by \$165,029. This increase was primarily related to property tax and service revenues in excess of services expenditures. In addition, tap connection and inspection fee revenues were greater than related expenditures.

The debt service fund's fund balance increased by \$118,883 because property tax revenues were greater than bond principal and interest requirements.

The capital project fund's fund balance increased by \$3,255.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to service revenues, surface water conversion and other income and regional water fee, professional fees, contracted services, and repairs and maintenance expenditures being greater than anticipated, and property tax revenues and capital outlay expenditures being less than anticipated. The fund balance as of July 31, 2018, was expected to be \$1,068,466 and the actual end-of-year fund balance was \$1,140,514.

Fort Bend County Municipal Utility District No. 5
Management's Discussion and Analysis (Continued)
July 31, 2018

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

Capital Assets (Net of Accumulated Depreciation)

| | 2018 | 2017 |
|--------------------------|---------------|---------------|
| Land and improvements | \$ 5,429,120 | \$ 4,827,563 |
| Construction in progress | 45,247 | - |
| Water facilities | 5,230,258 | 4,880,430 |
| Wastewater facilities | 7,006,995 | 6,345,294 |
| Drainage facilities | 6,663,237 | 5,842,322 |
| Total capital assets | \$ 24,374,857 | \$ 21,895,609 |

During the current year, additions to capital assets were as follows:

| | |
|--|--------------|
| Construction of water, sewer and drainage facilities to serve Briarwood Crossing, Sections 1 (Phase 1), 2, 6 and 8 | \$ 1,293,332 |
| Construction of water, sewer and drainage facilities to serve Fairpark Village, Sections 4 and 5 | 905,013 |
| Land to serve Briarwood Crossing, Phase 1 and Briarwood Crossing Detention Basins Nos. 1 and 2 | 601,557 |
| Construction in progress, engineering fees for design of chloramine conversion | 45,247 |
| Utility extension to serve Briarwood Commercial | 137,416 |
| Total additions to capital assets | \$ 2,982,565 |

The developer of the District has constructed water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. At July 31, 2018, a liability for developer-constructed capital assets of \$15,537,651 was recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended July 31, 2018, are summarized as follows.

Fort Bend County Municipal Utility District No. 5
Management's Discussion and Analysis (Continued)
July 31, 2018

| | |
|---|----------------------|
| Long-term debt payable, beginning of year | \$ 26,503,019 |
| Increases in long-term debt | 4,480,163 |
| Decreases in long-term debt | <u>(1,831,740)</u> |
| Long-term debt payable, end of year | <u>\$ 29,151,442</u> |

Since inception, the developer has advanced \$560,800 to the District for operations (net of repayments). These advances have been recorded as liabilities in the government-wide financial statements.

At July 31, 2018, the District had \$74,375,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems, \$10,000,000 authorized, but unissued, for road facilities and \$3,000,000 authorized, but unissued, for recreational facilities within the District.

The District's bonds are not rated.

Other Relevant Factors

Relationship to the Village of Pleak

Under existing Texas law, since the District lies within the extraterritorial jurisdiction of the Village of Pleak (the Village), the District must conform to the Village ordinance consenting to the creation of the District.

Contingencies

The developer of the District is constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$4,765,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Events

On August 30, 2018, the District closed on the sale of its \$3,035,000 Unlimited Tax Bonds, Series 2018. Proceeds of the bonds were used to acquire, construct and improve the water, sanitary sewer and drainage systems within the District and to reimburse the District's developer.

On October 25, 2018, the District sold its \$3,267,000 Series 2018 Bond Anticipation Note at an interest rate of 2.647 percent. Proceeds of the note were used to acquire, construct and improve the water, sanitary sewer and drainage systems within the District and to reimburse the District's developer.

Fort Bend County Municipal Utility District No. 5
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|---------------------|----------------------|---------------------------------|
| Assets | | | | | | |
| Cash | \$ 651,106 | \$ 31,366 | \$ 9,329 | \$ 691,801 | \$ - | \$ 691,801 |
| Short-term investments | 556,572 | 1,114,072 | 837 | 1,671,481 | - | 1,671,481 |
| Receivables: | | | | | | |
| Property taxes | 8,521 | 8,411 | - | 16,932 | - | 16,932 |
| Service accounts | 109,009 | - | - | 109,009 | - | 109,009 |
| Accrued penalty and interest | - | - | - | - | 3,138 | 3,138 |
| Interfund receivable | 11,201 | - | - | 11,201 | (11,201) | - |
| Prepaid expenditures | 24,400 | - | - | 24,400 | - | 24,400 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land and improvements | - | - | - | - | 5,429,120 | 5,429,120 |
| Construction in progress | - | - | - | - | 45,247 | 45,247 |
| Infrastructure | - | - | - | - | 18,900,490 | 18,900,490 |
| Total assets | \$ 1,360,809 | \$ 1,153,849 | \$ 10,166 | \$ 2,524,824 | \$ 24,366,794 | \$ 26,891,618 |

Fort Bend County Municipal Utility District No. 5
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|---------------------|-----------------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 113,788 | \$ 8 | \$ - | \$ 113,796 | \$ - | \$ 113,796 |
| Accrued interest payable | - | - | - | - | 215,208 | 215,208 |
| Customer deposits | 91,754 | - | - | 91,754 | - | 91,754 |
| Due to others | 1,232 | - | - | 1,232 | - | 1,232 |
| Unearned tap connection fees | 5,000 | - | - | 5,000 | - | 5,000 |
| Interfund payable | - | 9,775 | 1,426 | 11,201 | (11,201) | - |
| Long-term liabilities: | | | | | | |
| Due within one year | - | - | - | - | 340,000 | 340,000 |
| Due after one year | - | - | - | - | 28,811,442 | 28,811,442 |
| Total liabilities | 211,774 | 9,783 | 1,426 | 222,983 | 29,355,449 | 29,578,432 |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | 8,521 | 8,411 | 0 | 16,932 | (16,932) | 0 |
| Fund Balances/Net Position | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable, prepaid expenditures | 24,400 | - | - | 24,400 | (24,400) | - |
| Restricted: | | | | | | |
| Unlimited tax bonds | - | 1,135,655 | - | 1,135,655 | (1,135,655) | - |
| Water, sewer and drainage | - | - | 8,740 | 8,740 | (8,740) | - |
| Unassigned | 1,116,114 | - | - | 1,116,114 | (1,116,114) | - |
| Total fund balances | 1,140,514 | 1,135,655 | 8,740 | 2,284,909 | (2,284,909) | 0 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,360,809 | \$ 1,153,849 | \$ 10,166 | \$ 2,524,824 | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | (4,767,960) | (4,767,960) |
| Restricted for debt service | | | | | 931,996 | 931,996 |
| Restricted for capital projects | | | | | 115 | 115 |
| Unrestricted | | | | | 1,149,035 | 1,149,035 |
| Total net position | | | | | \$ (2,686,814) | \$ (2,686,814) |

Fort Bend County Municipal Utility District No. 5
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--|------------------|-------------------------|-----------------------------|--------------------|--------------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 952,648 | \$ 978,155 | \$ - | \$ 1,930,803 | \$ 829 | \$ 1,931,632 |
| Water service | 121,199 | - | - | 121,199 | - | 121,199 |
| Sewer service | 322,038 | - | - | 322,038 | - | 322,038 |
| Regional water fee | 195,189 | - | - | 195,189 | - | 195,189 |
| Penalty and interest | 11,507 | 7,737 | - | 19,244 | 561 | 19,805 |
| Tap connection and inspection fees | 89,361 | - | - | 89,361 | - | 89,361 |
| Investment income | 9,567 | 11,760 | 26 | 21,353 | - | 21,353 |
| Other income | 95,034 | - | - | 95,034 | (86,212) | 8,822 |
| Total revenues | 1,796,543 | 997,652 | 26 | 2,794,221 | (84,822) | 2,709,399 |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Regional water fee | 184,870 | - | - | 184,870 | - | 184,870 |
| Lease payments | 117,600 | - | - | 117,600 | - | 117,600 |
| Professional fees | 135,269 | 2,669 | - | 137,938 | 54,286 | 192,224 |
| Contracted services | 257,996 | 29,232 | - | 287,228 | - | 287,228 |
| Utilities | 91,343 | - | - | 91,343 | - | 91,343 |
| Repairs and maintenance | 531,238 | - | - | 531,238 | - | 531,238 |
| Other expenditures | 84,134 | 2,326 | 15 | 86,475 | 2,500 | 88,975 |
| Tap connections | 53,450 | - | - | 53,450 | - | 53,450 |
| Capital outlay | 123,614 | - | 1,443,400 | 1,567,014 | (1,567,014) | - |
| Depreciation | - | - | - | - | 503,317 | 503,317 |
| Debt service: | | | | | | |
| Principal retirement | - | 370,000 | - | 370,000 | (370,000) | - |
| Interest and fees | - | 474,542 | - | 474,542 | 26,797 | 501,339 |
| Debt issuance costs | - | - | 55,656 | 55,656 | - | 55,656 |
| Total expenditures/expenses | 1,579,514 | 878,769 | 1,499,071 | 3,957,354 | (1,350,114) | 2,607,240 |
| Excess (Deficiency) of Revenues Over Expenditures | 217,029 | 118,883 | (1,499,045) | (1,163,133) | 1,265,292 | |

Fort Bend County Municipal Utility District No. 5
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--|-------------------------|----------------------------------|--------------------------------------|---------------------|--------------------|--|
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in (out) | \$ (52,000) | \$ - | \$ 52,000 | \$ - | \$ - | |
| Repayment of developer advances | - | - | (84,700) | (84,700) | 84,700 | |
| Bond anticipation note issued | - | - | 1,535,000 | 1,535,000 | (1,535,000) | |
| Total other financing sources (uses) | (52,000) | 0 | 1,502,300 | 1,450,300 | (1,450,300) | |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | | | | | | |
| | 165,029 | 118,883 | 3,255 | 287,167 | (287,167) | |
| Change in Net Position | | | | | | |
| | | | | | 102,159 | \$ 102,159 |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | 975,485 | 1,016,772 | 5,485 | 1,997,742 | - | (2,788,973) |
| End of year | <u>\$ 1,140,514</u> | <u>\$ 1,135,655</u> | <u>\$ 8,740</u> | <u>\$ 2,284,909</u> | <u>\$ 0</u> | <u>\$ (2,686,814)</u> |

Fort Bend County Municipal Utility District No. 5

Notes to Financial Statements

July 31, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Fort Bend County Municipal Utility District No. 5 (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective August 5, 1974, in accordance with the Texas Water Code, Chapter 54. The District began active operations at an organization meeting of the Board of Directors (the Board) on May 23, 2006 (inception). The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities, road facilities, and parks and recreational facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

Fort Bend County Municipal Utility District No. 5

Notes to Financial Statements

July 31, 2018

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

Fort Bend County Municipal Utility District No. 5

Notes to Financial Statements

July 31, 2018

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended July 31, 2018, include collections during the current period or within 60 days of year-end related to the 2017 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended July 31, 2018, the 2017 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

| | Years |
|--|--------------|
| Water production and distribution facilities | 10-45 |
| Wastewater collection and treatment facilities | 10-45 |
| Drainage facilities | 10-45 |

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

| | |
|--|----------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 24,374,857 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 16,932 |
| Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds. | 3,138 |
| Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. | (215,208) |
| Long-term debt obligations are not due and payable in the current period and are not reported in the funds. | (29,151,442) |
| Adjustment to fund balances to arrive at net position. | \$ (4,971,723) |

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

| | | |
|---|-----------|----------------|
| Change in fund balances. | \$ | 287,167 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense and noncapitalized costs in the current year. | | 1,006,911 |
| Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer. | | 84,700 |
| Governmental funds report proceeds from sales of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any affect on net position. | | (1,165,000) |
| Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds. | | (84,822) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (26,797) |
| Change in net position of governmental activities. | <u>\$</u> | <u>102,159</u> |

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At July 31, 2018, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At July 31, 2018, the District had the following investments and maturities:

| Type | Maturities in Years | | | | |
|---------|---------------------|----------------|------|------|-----------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| TexPool | \$ 1,671,481 | \$ 1,671,481 | \$ 0 | \$ 0 | \$ 0 |

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2018, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at July 31, 2018, as follows:

| | | |
|-----------------|----|-----------|
| Carrying value: | | |
| Deposits | \$ | 691,801 |
| Investments | | 1,671,481 |
| Total | \$ | 2,363,282 |

Investment Income

Investment income of \$21,353 for the year ended July 31, 2018, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended July 31, 2018, is presented below:

| Governmental Activities | Balances, Beginning of Year | Additions | Balances, End of Year |
|--|--|------------------|--------------------------------------|
| Capital assets, non-depreciable: | | | |
| Land and improvements | \$ 4,827,563 | \$ 601,557 | \$ 5,429,120 |
| Construction in progress | - | 45,247 | 45,247 |
| Total capital assets, non-depreciable | 4,827,563 | 646,804 | 5,474,367 |
| Capital assets, depreciable: | | | |
| Water production and distribution facilities | 5,809,760 | 491,278 | 6,301,038 |
| Wastewater collection and treatment facilities | 7,634,594 | 858,434 | 8,493,028 |
| Drainage facilities | 6,416,430 | 986,049 | 7,402,479 |
| Total capital assets, depreciable | 19,860,784 | 2,335,761 | 22,196,545 |
| Less accumulated depreciation: | | | |
| Water production and distribution facilities | (929,330) | (141,450) | (1,070,780) |
| Wastewater collection and treatment facilities | (1,289,300) | (196,733) | (1,486,033) |
| Drainage facilities | (574,108) | (165,134) | (739,242) |
| Total accumulated depreciation | (2,792,738) | (503,317) | (3,296,055) |
| Total governmental activities, net | \$ 21,895,609 | \$ 2,479,248 | \$ 24,374,857 |

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended July 31, 2018, were as shown below:

| Governmental Activities | Balances, Beginning of Year | Increases | Decreases | Balances, End of Year | Amounts Due in One Year |
|---|--|---------------------|---------------------|--------------------------------------|--|
| Bonds payable: | | | | | |
| General obligation bonds | \$ 12,220,000 | \$ - | \$ 370,000 | \$ 11,850,000 | \$ 340,000 |
| Less discounts on bonds | 341,583 | - | 9,574 | 332,009 | - |
| | 11,878,417 | 0 | 360,426 | 11,517,991 | 340,000 |
| Bond anticipation note | - | 1,535,000 | - | 1,535,000 | - |
| Developer advances | 645,500 | - | 84,700 | 560,800 | - |
| Due to developer | 13,979,102 | 2,945,163 | 1,386,614 | 15,537,651 | - |
| Total governmental activities long-term liabilities | <u>\$ 26,503,019</u> | <u>\$ 4,480,163</u> | <u>\$ 1,831,740</u> | <u>\$ 29,151,442</u> | <u>\$ 340,000</u> |

General Obligation Bonds

| | Series 2011 | Series 2011A |
|---|------------------------|------------------------|
| Amounts outstanding, July 31, 2018 | \$915,000 | \$2,145,000 |
| Interest rates | 4.00% to 6.00% | 3.40% to 5.00% |
| Maturity dates, serially beginning/ending | September 1, 2018/2034 | September 1, 2018/2035 |
| Interest payment dates | September 1/ March 1 | September 1/ March 1 |
| Callable dates* | September 1, 2019 | September 1, 2019 |
| | Series 2013 | Series 2015 |
| Amounts outstanding, July 31, 2018 | \$1,490,000 | \$2,690,000 |
| Interest rates | 2.00% to 4.00% | 1.75% to 4.00% |
| Maturity dates, serially beginning/ending | September 1, 2018/2038 | September 1, 2018/2040 |
| Interest payment dates | September 1/ March 1 | September 1/ March 1 |
| Callable dates* | September 1, 2020 | September 1, 2023 |

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

| | Series 2016 |
|--|---------------------------|
| Amount outstanding, July 31, 2018 | \$4,610,000 |
| Interest rates | 2.000% to 4.125% |
| Maturity dates, serially beginning/ending | September 1, 2018/2041 |
| Interest payment dates | September 1/ March 1 |
| Callable date* | September 1, 2024 |

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at July 31, 2018.

| Year | Principal | Interest | Total |
|-----------|---------------|--------------|---------------|
| 2019 | \$ 340,000 | \$ 461,597 | \$ 801,597 |
| 2020 | 355,000 | 452,253 | 807,253 |
| 2021 | 370,000 | 441,422 | 811,422 |
| 2022 | 390,000 | 428,973 | 818,973 |
| 2023 | 410,000 | 415,439 | 825,439 |
| 2024-2028 | 2,345,000 | 1,834,427 | 4,179,427 |
| 2029-2033 | 2,935,000 | 1,303,993 | 4,238,993 |
| 2034-2038 | 3,005,000 | 630,563 | 3,635,563 |
| 2039-2042 | 1,700,000 | 124,106 | 1,824,106 |
| Total | \$ 11,850,000 | \$ 6,092,773 | \$ 17,942,773 |

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

| | |
|-----------------------|---------------|
| Utility bonds voted | \$ 87,000,000 |
| Utility bonds sold | 12,625,000 |
| Refunding bonds voted | 60,000,000 |
| Park bonds voted | 3,000,000 |
| Road bonds voted | 10,000,000 |

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Due to Developer

The developer of the District has constructed underground utilities on behalf of the District. The District has agreed to reimburse the developer for these construction costs, and interest, to the extent approved by the Commission from the proceeds of future bond sales. The District's engineer estimates reimbursable costs for completed projects are \$15,537,651. These amounts have been recorded in the financial statements as long-term liabilities.

Since inception, the developer has advanced \$560,800 to the District for operations (net of repayments). These advances have been recorded as liabilities in the government-wide financial statements.

Bond Anticipation Note

On October 31, 2017, the District issued its Series 2017 Bond Anticipation Note in the amount of \$1,535,000. The note is dated October 31, 2017, bears interest at the rate of 1.85 percent and matures October 30, 2018, unless called for early redemption. The note is a special limited obligation of the District and is payable solely from proceeds from the sale of bonds and, therefore, has been excluded from the current portion of long-term liabilities.

Note 5: Significant Bond Resolution and Commission Requirements

The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended July 31, 2018, the District levied an ad valorem debt service tax rate of \$0.7500 per \$100 of assessed valuation, which resulted in a tax levy of \$979,266 on the taxable valuation of \$130,568,772 for the 2017 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$806,084, of which \$233,042 has been paid and \$573,042 is due September 1, 2018.

Note 6: Maintenance Taxes

At an election held on November 7, 2006, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended July 31, 2018, the District levied an ad valorem maintenance tax at the rate of \$0.7300 per \$100 of assessed valuation, which resulted in a tax levy of \$953,152 on the taxable valuation of \$130,568,772 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Fort Bend County Municipal Utility District No. 5
Notes to Financial Statements
July 31, 2018

Note 7: Wastewater Treatment Plant Leases

On February 7, 2007, the District entered into a lease of a 175,000 gallons-per-day (gpd) wastewater treatment plant. The original lease term was for 60 months and, during a prior year, was extended on a month-to-month basis. Payments were \$5,000 per month during the current year. During the current year, the District incurred fees of \$60,000 related to the lease.

In June 2015, the District entered into a lease of an additional 175,000 gpd wastewater treatment plant. The lease term is for 60 months with monthly payments of \$4,800 upon substantial completion of the installation, which occurred in October 2016. During the current year, the District incurred fees of \$57,600 related to the lease. Future minimum lease payments under this lease are: 2019 - \$57,600; 2020 - \$57,600; 2021 - \$57,600 and 2022 - \$9,600.

Note 8: Groundwater Reduction Plan Agreement

The District is within the boundaries of the Fort Bend Subsidence District (the Subsidence District), which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations required for reduction of groundwater withdrawals through conversion to alternate source water (*e.g.*, surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. The District has entered into a Groundwater Reduction Plan Participation Agreement (GRPPA) with the City of Rosenberg (the City) in order to meet the Subsidence District's requirements. As a participant in the GRPPA, the District has complied with all Subsidence District requirements for surface water conversion, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City in the future. For the year ended July 31, 2018, the District incurred fees totaling \$184,870 for groundwater withdrawal.

Note 9: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. To provide coverage for itself, the District participates, along with other Texas municipalities, in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). Under the fund agreement, the District pays regular insurance premium payments, based on estimated claims, into a joint risk pool. All claims and expenses for all members of the fund are paid from a joint risk pool. The District has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums.

Fort Bend County Municipal Utility District No. 5

Notes to Financial Statements

July 31, 2018

Note 10: Contingencies

The developer of the District is constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction contract amounts are approximately \$4,765,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 11: Subsequent Events

On August 30, 2018, the District closed on the sale of its \$3,035,000 Unlimited Tax Bonds, Series 2018. Proceeds of the bonds were used to acquire, construct and improve the water, sanitary sewer and drainage systems within the District and reimburse the District's developer.

On October 25, 2018, the District sold its \$3,267,000 Series 2018 Bond Anticipation Note at an interest rate of 2.647 percent. Proceeds of the note were used to acquire, construct and improve the water, sanitary sewer and drainage systems within the District and to reimburse the District's developer.

Required Supplementary Information

Fort Bend County Municipal Utility District No. 5
Budgetary Comparison Schedule – General Fund
Year Ended July 31, 2018

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|---------------------|---|
| Revenues | | | |
| Property taxes | \$ 1,036,285 | \$ 952,648 | \$ (83,637) |
| Water service | 91,440 | 121,199 | 29,759 |
| Sewer service | 252,000 | 322,038 | 70,038 |
| Surface water conversion | 132,000 | 195,189 | 63,189 |
| Penalty and interest | 9,000 | 11,507 | 2,507 |
| Tap connection and inspection fees | 83,958 | 89,361 | 5,403 |
| Investment income | 1,380 | 9,567 | 8,187 |
| Other income | 3,480 | 95,034 | 91,554 |
| Total revenues | <u>1,609,543</u> | <u>1,796,543</u> | <u>187,000</u> |
| Expenditures | | | |
| Service operations: | | | |
| Regional water fee | 121,440 | 184,870 | (63,430) |
| Lease payments | 117,600 | 117,600 | - |
| Professional fees | 105,300 | 135,269 | (29,969) |
| Contracted services | 199,833 | 257,996 | (58,163) |
| Utilities | 85,200 | 91,343 | (6,143) |
| Repairs and maintenance | 376,407 | 531,238 | (154,831) |
| Other expenditures | 93,782 | 84,134 | 9,648 |
| Tap connections | 42,000 | 53,450 | (11,450) |
| Capital outlay | 375,000 | 123,614 | 251,386 |
| Total expenditures | <u>1,516,562</u> | <u>1,579,514</u> | <u>(62,952)</u> |
| Excess of Revenues Over Expenditures | 92,981 | 217,029 | 124,048 |
| Other Financing Uses | | | |
| Interfund transfer out | - | (52,000) | (52,000) |
| Excess of Revenues and Transfers In Over Expenditures and Transfers Out | 92,981 | 165,029 | 72,048 |
| Fund Balance, Beginning of Year | <u>975,485</u> | <u>975,485</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 1,068,466</u> | <u>\$ 1,140,514</u> | <u>\$ 72,048</u> |

Fort Bend County Municipal Utility District No. 5
Notes to Required Supplementary Information
July 31, 2018

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2018.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Fort Bend County Municipal Utility District No. 5
Other Schedules Included Within This Report
July 31, 2018

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Fort Bend County Municipal Utility District No. 5

Schedule of Services and Rates

Year Ended July 31, 2018

1. Services provided by the District:

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

2. Retail service providers

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

| | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate Per 1,000 Gallons Over Minimum</u> | <u>Usage Levels</u> |
|---|-----------------------|----------------------|----------------------|--|---|
| Water: | \$ 9.50 | 6,000 | N | \$ 1.25 | 6,001 to 10,000 |
| | | | | \$ 1.50 | 10,001 to 15,000 |
| | | | | \$ 1.75 | 15,001 to 20,000 |
| | | | | \$ 2.00 | 20,001 to No Limit |
| Wastewater: | \$ 36.00 | 1 | Y | | |
| City of Rosenberg GRP fee: | \$ 2.42 | 1 | N | \$ 2.42 | 1 to No Limit |
| Does the District employ winter averaging for wastewater usage? | | | | | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| Total charges per 10,000 gallons usage (including fees): | | | | Water \$ 38.70 | Wastewater \$ 36.00 |

b. Water and wastewater retail connections:

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFC*</u> |
|-------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | - | - | x1.0 | - |
| ≤ 3/4" | 861 | 855 | x1.0 | 855 |
| 1" | 13 | 13 | x2.5 | 33 |
| 1 1/2" | - | - | x5.0 | - |
| 2" | 15 | 15 | x8.0 | 120 |
| 3" | - | - | x15.0 | - |
| 4" | - | - | x25.0 | - |
| 6" | - | - | x50.0 | - |
| 8" | - | - | x80.0 | - |
| 10" | - | - | x115.0 | - |
| Total water | 889 | 883 | | 1,008 |
| Total wastewater | 876 | 870 | x1.0 | 870 |

3. Total water consumption (in thousands) during the fiscal year:

| | |
|---|--------|
| Gallons pumped into the system: | 87,607 |
| Gallons billed to customers: | 83,013 |
| Water accountability ratio (gallons billed/gallons pumped): | 94.76% |

*"ESFC" means equivalent single-family connections

Fort Bend County Municipal Utility District No. 5
Schedule of General Fund Expenditures
Year Ended July 31, 2018

| | | | |
|---|--------------------------|-----------|------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ 16,000 | | |
| Legal | 95,594 | | |
| Engineering | 23,675 | | |
| Financial advisor | - | | |
| | <u> -</u> | | 135,269 |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | - |
| Regional Water Fee | | | 184,870 |
| Contracted Services | | | |
| Bookkeeping | 15,150 | | |
| General manager | - | | |
| Appraisal district | - | | |
| Tax collector | - | | |
| Security | - | | |
| Other contracted services | 94,812 | | |
| | <u> 94,812</u> | | 109,962 |
| Utilities | | | 91,343 |
| Repairs and Maintenance | | | 531,238 |
| Administrative Expenditures | | | |
| Directors' fees | 7,650 | | |
| Office supplies | 29,007 | | |
| Insurance | 13,644 | | |
| Other administrative expenditures | 33,833 | | |
| | <u> 33,833</u> | | 84,134 |
| Capital Outlay | | | |
| Capitalized assets | - | | |
| Expenditures not capitalized | 123,614 | | |
| | <u> 123,614</u> | | 123,614 |
| Tap Connection Expenditures | | | 53,450 |
| Solid Waste Disposal | | | 148,034 |
| Fire Fighting | | | - |
| Parks and Recreation | | | - |
| Lease Payments | | | <u>117,600</u> |
| Total expenditures | | <u>\$</u> | <u>1,579,514</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Temporary Investments
July 31, 2018

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|------------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| TexPool | 1.91% | Demand | \$ 556,572 | \$ - |
| Debt Service Fund | | | | |
| TexPool | 1.91% | Demand | 1,114,072 | - |
| Capital Projects Fund | | | | |
| TexPool | 1.91% | Demand | <u>837</u> | <u>-</u> |
| Totals | | | <u>\$ 1,671,481</u> | <u>\$ 0</u> |

Fort Bend County Municipal Utility District No. 5
Analysis of Taxes Levied and Receivable
Year Ended July 31, 2018

| | <u>Maintenance Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|-----------------------------------|
| Receivable, Beginning of Year | \$ 8,704 | \$ 7,399 |
| Additions and corrections to prior years' taxes | <u>(116)</u> | <u>(99)</u> |
| Adjusted receivable, beginning of year | <u>8,588</u> | <u>7,300</u> |
| | | |
| 2017 Original Tax Levy | 942,476 | 968,298 |
| Additions and corrections | <u>10,676</u> | <u>10,968</u> |
| Adjusted tax levy | <u>953,152</u> | <u>979,266</u> |
| Total to be accounted for | 961,740 | 986,566 |
| Tax collections: Current year | (946,564) | (972,498) |
| Prior years | <u>(6,655)</u> | <u>(5,657)</u> |
| Receivable, end of year | <u>\$ 8,521</u> | <u>\$ 8,411</u> |
| | | |
| Receivable, by Year | | |
| 2017 | \$ 6,588 | \$ 6,768 |
| 2016 | <u>1,933</u> | <u>1,643</u> |
| Receivable, end of year | <u>\$ 8,521</u> | <u>\$ 8,411</u> |

Fort Bend County Municipal Utility District No. 5
Analysis of Taxes Levied and Receivable (Continued)
Year Ended July 31, 2018

| | 2017 | 2016 | 2015 | 2014 |
|---|-----------------------|-----------------------|----------------------|----------------------|
| Property Valuations | | | | |
| Land | \$ 34,529,740 | \$ 25,587,670 | \$ 21,313,070 | \$ 19,855,004 |
| Improvements | 96,881,695 | 82,385,695 | 61,245,605 | 41,311,355 |
| Personal property | 651,060 | 516,890 | 473,430 | 383,913 |
| Exemptions | (1,493,723) | (949,990) | (861,270) | (532,120) |
| Total property valuations | <u>\$ 130,568,772</u> | <u>\$ 107,540,265</u> | <u>\$ 82,170,835</u> | <u>\$ 61,018,152</u> |
| Tax Rates per \$100 Valuation | | | | |
| Debt service tax rates | \$ 0.7500 | \$ 0.6800 | \$ 0.5500 | \$ 0.7700 |
| Maintenance tax rates* | 0.7300 | 0.8000 | 0.9500 | 0.7300 |
| Total tax rates per \$100 valuation | <u>\$ 1.4800</u> | <u>\$ 1.4800</u> | <u>\$ 1.5000</u> | <u>\$ 1.5000</u> |
| Tax Levy | | | | |
| | <u>\$ 1,932,418</u> | <u>\$ 1,591,597</u> | <u>\$ 1,232,562</u> | <u>\$ 915,273</u> |
| Percent of Taxes Collected to Taxes Levied** | | | | |
| | <u>99%</u> | <u>99%</u> | <u>100%</u> | <u>100%</u> |

*Maximum tax rate approved by voters: \$1.50 on November 7, 2006

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

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years
July 31, 2018

| Due During Fiscal Years Ending July 31 | Series 2011 | | |
|---|--|--|---------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2019 | \$ 30,000 | \$ 51,395 | \$ 81,395 |
| 2020 | 35,000 | 49,889 | 84,889 |
| 2021 | 35,000 | 48,182 | 83,182 |
| 2022 | 40,000 | 46,288 | 86,288 |
| 2023 | 40,000 | 44,218 | 84,218 |
| 2024 | 45,000 | 41,930 | 86,930 |
| 2025 | 45,000 | 39,427 | 84,427 |
| 2026 | 50,000 | 36,724 | 86,724 |
| 2027 | 50,000 | 33,836 | 83,836 |
| 2028 | 55,000 | 30,778 | 85,778 |
| 2029 | 60,000 | 27,406 | 87,406 |
| 2030 | 60,000 | 23,881 | 83,881 |
| 2031 | 65,000 | 20,209 | 85,209 |
| 2032 | 70,000 | 16,200 | 86,200 |
| 2033 | 75,000 | 11,850 | 86,850 |
| 2034 | 80,000 | 7,200 | 87,200 |
| 2035 | 80,000 | 2,400 | 82,400 |
| Totals | <u>\$ 915,000</u> | <u>\$ 531,813</u> | <u>\$ 1,446,813</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years (Continued)
July 31, 2018

| Due During Fiscal Years Ending July 31 | Series 2011A | | |
|---|--|--|---------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2019 | \$ 75,000 | \$ 100,020 | \$ 175,020 |
| 2020 | 75,000 | 97,245 | 172,245 |
| 2021 | 80,000 | 94,220 | 174,220 |
| 2022 | 85,000 | 90,878 | 175,878 |
| 2023 | 90,000 | 87,200 | 177,200 |
| 2024 | 95,000 | 83,128 | 178,128 |
| 2025 | 100,000 | 78,690 | 178,690 |
| 2026 | 105,000 | 73,975 | 178,975 |
| 2027 | 110,000 | 69,030 | 179,030 |
| 2028 | 120,000 | 63,500 | 183,500 |
| 2029 | 125,000 | 57,375 | 182,375 |
| 2030 | 130,000 | 51,000 | 181,000 |
| 2031 | 140,000 | 44,250 | 184,250 |
| 2032 | 145,000 | 37,125 | 182,125 |
| 2033 | 155,000 | 29,625 | 184,625 |
| 2034 | 165,000 | 21,625 | 186,625 |
| 2035 | 170,000 | 13,250 | 183,250 |
| 2036 | 180,000 | 4,500 | 184,500 |
| Totals | <u>\$ 2,145,000</u> | <u>\$ 1,096,636</u> | <u>\$ 3,241,636</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years (Continued)
July 31, 2018

| Due During Fiscal Years Ending July 31 | Series 2013 | | |
|--|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2019 | \$ 45,000 | \$ 51,213 | \$ 96,213 |
| 2020 | 45,000 | 50,088 | 95,088 |
| 2021 | 50,000 | 48,838 | 98,838 |
| 2022 | 50,000 | 47,463 | 97,463 |
| 2023 | 55,000 | 45,950 | 100,950 |
| 2024 | 55,000 | 44,300 | 99,300 |
| 2025 | 55,000 | 42,650 | 97,650 |
| 2026 | 60,000 | 40,850 | 100,850 |
| 2027 | 65,000 | 38,818 | 103,818 |
| 2028 | 65,000 | 36,706 | 101,706 |
| 2029 | 70,000 | 34,425 | 104,425 |
| 2030 | 70,000 | 31,975 | 101,975 |
| 2031 | 75,000 | 29,437 | 104,437 |
| 2032 | 80,000 | 26,625 | 106,625 |
| 2033 | 80,000 | 23,625 | 103,625 |
| 2034 | 85,000 | 20,531 | 105,531 |
| 2035 | 90,000 | 17,250 | 107,250 |
| 2036 | 95,000 | 13,781 | 108,781 |
| 2037 | 95,000 | 10,100 | 105,100 |
| 2038 | 100,000 | 6,200 | 106,200 |
| 2039 | 105,000 | 2,100 | 107,100 |
| Totals | <u>\$ 1,490,000</u> | <u>\$ 662,925</u> | <u>\$ 2,152,925</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years (Continued)
July 31, 2018

| Due During Fiscal Years Ending July 31 | Series 2015 | | |
|--|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2019 | \$ 70,000 | \$ 95,425 | \$ 165,425 |
| 2020 | 75,000 | 93,937 | 168,937 |
| 2021 | 75,000 | 92,288 | 167,288 |
| 2022 | 80,000 | 90,425 | 170,425 |
| 2023 | 85,000 | 88,277 | 173,277 |
| 2024 | 90,000 | 85,780 | 175,780 |
| 2025 | 90,000 | 83,080 | 173,080 |
| 2026 | 95,000 | 80,234 | 175,234 |
| 2027 | 100,000 | 77,112 | 177,112 |
| 2028 | 105,000 | 73,650 | 178,650 |
| 2029 | 110,000 | 69,833 | 179,833 |
| 2030 | 115,000 | 65,725 | 180,725 |
| 2031 | 115,000 | 61,499 | 176,499 |
| 2032 | 120,000 | 57,000 | 177,000 |
| 2033 | 125,000 | 52,100 | 177,100 |
| 2034 | 135,000 | 46,900 | 181,900 |
| 2035 | 140,000 | 41,400 | 181,400 |
| 2036 | 145,000 | 35,700 | 180,700 |
| 2037 | 150,000 | 29,800 | 179,800 |
| 2038 | 155,000 | 23,700 | 178,700 |
| 2039 | 165,000 | 17,300 | 182,300 |
| 2040 | 170,000 | 10,600 | 180,600 |
| 2041 | 180,000 | 3,600 | 183,600 |
| Totals | <u>\$ 2,690,000</u> | <u>\$ 1,375,365</u> | <u>\$ 4,065,365</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years (Continued)
July 31, 2018

| Due During Fiscal Years Ending July 31 | Series 2016 | | |
|--|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2019 | \$ 120,000 | \$ 163,544 | \$ 283,544 |
| 2020 | 125,000 | 161,094 | 286,094 |
| 2021 | 130,000 | 157,894 | 287,894 |
| 2022 | 135,000 | 153,919 | 288,919 |
| 2023 | 140,000 | 149,794 | 289,794 |
| 2024 | 145,000 | 145,519 | 290,519 |
| 2025 | 150,000 | 141,093 | 291,093 |
| 2026 | 160,000 | 136,443 | 296,443 |
| 2027 | 165,000 | 131,362 | 296,362 |
| 2028 | 170,000 | 125,812 | 295,812 |
| 2029 | 175,000 | 119,881 | 294,881 |
| 2030 | 185,000 | 113,581 | 298,581 |
| 2031 | 190,000 | 106,900 | 296,900 |
| 2032 | 195,000 | 99,922 | 294,922 |
| 2033 | 205,000 | 92,544 | 297,544 |
| 2034 | 210,000 | 84,763 | 294,763 |
| 2035 | 220,000 | 76,563 | 296,563 |
| 2036 | 230,000 | 67,700 | 297,700 |
| 2037 | 235,000 | 58,400 | 293,400 |
| 2038 | 245,000 | 48,800 | 293,800 |
| 2039 | 255,000 | 38,800 | 293,800 |
| 2040 | 265,000 | 28,400 | 293,400 |
| 2041 | 275,000 | 17,428 | 292,428 |
| 2042 | 285,000 | 5,878 | 290,878 |
| Totals | <u>\$ 4,610,000</u> | <u>\$ 2,426,034</u> | <u>\$ 7,036,034</u> |

Fort Bend County Municipal Utility District No. 5
Schedule of Long-term Debt Service Requirements by Years (Continued)
July 31, 2018

| Due During Fiscal Years Ending July 31 | Annual Requirements For All Series | | |
|---|---|-----------------------------------|---|
| | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
| 2019 | \$ 340,000 | \$ 461,597 | \$ 801,597 |
| 2020 | 355,000 | 452,253 | 807,253 |
| 2021 | 370,000 | 441,422 | 811,422 |
| 2022 | 390,000 | 428,973 | 818,973 |
| 2023 | 410,000 | 415,439 | 825,439 |
| 2024 | 430,000 | 400,657 | 830,657 |
| 2025 | 440,000 | 384,940 | 824,940 |
| 2026 | 470,000 | 368,226 | 838,226 |
| 2027 | 490,000 | 350,158 | 840,158 |
| 2028 | 515,000 | 330,446 | 845,446 |
| 2029 | 540,000 | 308,920 | 848,920 |
| 2030 | 560,000 | 286,162 | 846,162 |
| 2031 | 585,000 | 262,295 | 847,295 |
| 2032 | 610,000 | 236,872 | 846,872 |
| 2033 | 640,000 | 209,744 | 849,744 |
| 2034 | 675,000 | 181,019 | 856,019 |
| 2035 | 700,000 | 150,863 | 850,863 |
| 2036 | 650,000 | 121,681 | 771,681 |
| 2037 | 480,000 | 98,300 | 578,300 |
| 2038 | 500,000 | 78,700 | 578,700 |
| 2039 | 525,000 | 58,200 | 583,200 |
| 2040 | 435,000 | 39,000 | 474,000 |
| 2041 | 455,000 | 21,028 | 476,028 |
| 2042 | 285,000 | 5,878 | 290,878 |
| Totals | <u>\$ 11,850,000</u> | <u>\$ 6,092,773</u> | <u>\$ 17,942,773</u> |

Fort Bend County Municipal Utility District No. 5
Changes in Long-term Bonded Debt
Year Ended July 31, 2018

| | Bond | | |
|--|---------------------------|---------------------------|---------------------------|
| | Series 2011 | Series 2011A | Series 2013 |
| Interest rates | 4.00% to 6.00% | 3.40% to 5.00% | 2.00% to 4.00% |
| Dates interest payable | September 1/ March 1 | September 1/ March 1 | September 1/ March 1 |
| Maturity dates | September 1, 2018/2034 | September 1, 2018/2035 | September 1, 2018/2038 |
| Bonds outstanding, beginning of current year | \$ 945,000 | \$ 2,215,000 | \$ 1,530,000 |
| Retirements, principal | <u>30,000</u> | <u>70,000</u> | <u>40,000</u> |
| Bonds outstanding, end of current year | <u>\$ 915,000</u> | <u>\$ 2,145,000</u> | <u>\$ 1,490,000</u> |
| Interest paid during current year | <u>\$ 52,707</u> | <u>\$ 102,560</u> | <u>\$ 52,275</u> |

Paying agent's name and address:

Series 2011 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2011A - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2013 - Regions Bank, Houston, Texas

Series 2015 - Regions Bank, Houston, Texas

Series 2016 - Regions Bank, Houston, Texas

Bond authority:

| | Utility Bonds | Park Bonds | Road Bonds | Refunding Bonds |
|-----------------------------|----------------------|---------------------|----------------------|------------------------|
| Amount authorized by voters | \$ 87,000,000 | \$ 3,000,000 | \$ 10,000,000 | \$ 60,000,000 |
| Amount issued | \$ 12,625,000 | \$ - | \$ - | \$ - |
| Remaining to be issued | <u>\$ 74,375,000</u> | <u>\$ 3,000,000</u> | <u>\$ 10,000,000</u> | <u>\$ 60,000,000</u> |

Debt service fund cash and temporary investment balances as of July 31, 2018: \$ 1,145,438

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 747,616

Issues

| Series 2015 | Series 2016 | Totals |
|---------------------------|---------------------------|----------------------|
| 1.75% to 4.00% | 2.000% to 4.125% | |
| September 1/ March 1 | September 1/ March 1 | |
| September 1, 2018/2040 | September 1, 2018/2041 | |
| \$ 2,760,000 | \$ 4,770,000 | \$ 12,220,000 |
| <u>70,000</u> | <u>160,000</u> | <u>370,000</u> |
| <u>\$ 2,690,000</u> | <u>\$ 4,610,000</u> | <u>\$ 11,850,000</u> |
| <u>\$ 96,738</u> | <u>\$ 166,344</u> | <u>\$ 470,624</u> |

Fort Bend County Municipal Utility District No. 5
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended July 31,

| | Amounts | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| General Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 952,648 | \$ 853,897 | \$ 780,404 | \$ 443,373 | \$ 358,133 |
| Water service | 121,199 | 101,110 | 92,333 | 71,822 | 54,931 |
| Sewer service | 322,038 | 271,268 | 230,795 | 177,866 | 141,313 |
| Regional water fee | 195,189 | 151,439 | 115,288 | 56,058 | 46,470 |
| Penalty and interest | 11,507 | 9,787 | 7,517 | 6,303 | 6,616 |
| Tap connection and inspection fees | 89,361 | 88,371 | 82,478 | 69,219 | 66,492 |
| Investment income | 9,567 | 4,736 | 1,136 | 205 | 49 |
| Other income | 95,034 | 3,750 | 3,128 | 2,118 | 2,126 |
| Total revenues | 1,796,543 | 1,484,358 | 1,313,079 | 826,964 | 676,130 |
| Expenditures | | | | | |
| Service operations: | | | | | |
| Purchased services | - | 2,543 | 15,838 | - | - |
| Regional water fee | 184,870 | 142,690 | 114,938 | 60,417 | 46,219 |
| Lease payments | 117,600 | 108,000 | 60,000 | 60,000 | 60,000 |
| Professional fees | 135,269 | 121,447 | 115,172 | 94,991 | 99,070 |
| Contracted services | 257,996 | 196,223 | 163,710 | 141,304 | 114,691 |
| Utilities | 91,343 | 84,302 | 65,231 | 60,820 | 61,795 |
| Repairs and maintenance | 531,238 | 299,733 | 281,295 | 200,530 | 209,594 |
| Other expenditures | 84,134 | 84,110 | 65,542 | 56,792 | 47,969 |
| Tap connections | 53,450 | 50,036 | 46,850 | 37,075 | 35,575 |
| Capital outlay | 123,614 | - | 8,700 | 33,060 | - |
| Total expenditures | 1,579,514 | 1,089,084 | 937,276 | 744,989 | 674,913 |
| Excess of Revenues Over Expenditures | 217,029 | 395,274 | 375,803 | 81,975 | 1,217 |
| Other Financing Sources (Uses) | | | | | |
| Interfund transfers in (out) | (52,000) | - | 35,810 | - | - |
| Excess of Revenues and Transfers In Over Expenditures and Transfers Out | 165,029 | 395,274 | 411,613 | 81,975 | 1,217 |
| Fund Balance, Beginning of Year | 975,485 | 580,211 | 168,598 | 86,623 | 85,406 |
| Fund Balance, End of Year | \$ 1,140,514 | \$ 975,485 | \$ 580,211 | \$ 168,598 | \$ 86,623 |
| Total Active Retail Water Connections | 883 | 752 | 643 | 524 | 432 |
| Total Active Retail Wastewater Connections | 870 | 741 | 636 | 519 | 428 |

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------|----------------------|----------------------|---------------------|---------------------|
| 53.0 % | 57.5 % | 59.4 % | 53.6 % | 52.4 % |
| 6.8 | 6.8 | 7.0 | 8.7 | 8.1 |
| 17.9 | 18.3 | 17.6 | 21.5 | 20.8 |
| 10.9 | 10.2 | 8.8 | 6.7 | 6.8 |
| 0.6 | 0.7 | 0.6 | 0.8 | 1.0 |
| 5.0 | 6.0 | 6.3 | 8.4 | 9.8 |
| 0.5 | 0.3 | 0.1 | 0.0 | 0.0 |
| 5.3 | 0.2 | 0.2 | 0.3 | 1.1 |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| - | 0.2 | 1.2 | - | - |
| 10.3 | 9.6 | 8.8 | 7.3 | 6.8 |
| 6.5 | 7.3 | 4.6 | 7.2 | 8.9 |
| 7.5 | 8.2 | 8.7 | 11.5 | 14.6 |
| 14.3 | 13.2 | 12.5 | 17.1 | 17.0 |
| 5.1 | 5.7 | 4.9 | 7.4 | 9.1 |
| 29.6 | 20.2 | 21.4 | 24.2 | 31.0 |
| 4.7 | 5.6 | 5.0 | 6.9 | 7.1 |
| 3.0 | 3.4 | 3.6 | 4.5 | 5.3 |
| 6.9 | - | 0.7 | 4.0 | - |
| <u>87.9</u> | <u>73.4</u> | <u>71.4</u> | <u>90.1</u> | <u>99.8</u> |
| <u><u>12.1 %</u></u> | <u><u>26.6 %</u></u> | <u><u>28.6 %</u></u> | <u><u>9.9 %</u></u> | <u><u>0.2 %</u></u> |

Fort Bend County Municipal Utility District No. 5
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended July 31,

| | Amounts | | | | |
|---|---------------------|---------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Debt Service Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 978,155 | \$ 725,195 | \$ 452,793 | \$ 467,667 | \$ 358,243 |
| Penalty and interest | 7,737 | 3,528 | 3,542 | 2,190 | 4,158 |
| Investment income | 11,760 | 4,952 | 1,749 | 314 | 205 |
| Total revenues | <u>997,652</u> | <u>733,675</u> | <u>458,084</u> | <u>470,171</u> | <u>362,606</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Professional fees | 2,669 | 170 | 1,028 | 214 | 1,507 |
| Contracted services | 29,232 | 22,574 | 20,019 | 14,912 | 12,060 |
| Other expenditures | 2,326 | 3,299 | 3,661 | 2,173 | 1,979 |
| Debt service: | | | | | |
| Principal retirement | 370,000 | 135,000 | 125,000 | 120,000 | 25,000 |
| Interest and fees | 474,542 | 351,158 | 270,369 | 219,791 | 213,294 |
| Total expenditures | <u>878,769</u> | <u>512,201</u> | <u>420,077</u> | <u>357,090</u> | <u>253,840</u> |
| Excess of Revenues Over Expenditures | 118,883 | 221,474 | 38,007 | 113,081 | 108,766 |
| Fund Balance, Beginning of Year | <u>1,016,772</u> | <u>795,298</u> | <u>757,291</u> | <u>644,210</u> | <u>535,444</u> |
| Fund Balance, End of Year | <u>\$ 1,135,655</u> | <u>\$ 1,016,772</u> | <u>\$ 795,298</u> | <u>\$ 757,291</u> | <u>\$ 644,210</u> |

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------|----------------------|---------------------|----------------------|----------------------|
| 98.0 % | 98.8 % | 98.8 % | 99.5 % | 97.6 % |
| 0.8 | 0.5 | 0.8 | 0.4 | 2.3 |
| <u>1.2</u> | <u>0.7</u> | <u>0.4</u> | <u>0.1</u> | <u>0.1</u> |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 0.3 | 0.0 | 0.2 | 0.0 | 0.4 |
| 2.9 | 3.1 | 4.4 | 3.2 | 3.3 |
| 0.2 | 0.4 | 0.8 | 0.5 | 0.6 |
| 37.1 | 18.4 | 27.3 | 25.5 | 6.9 |
| <u>47.6</u> | <u>47.9</u> | <u>59.0</u> | <u>46.7</u> | <u>58.8</u> |
| <u>88.1</u> | <u>69.8</u> | <u>91.7</u> | <u>75.9</u> | <u>70.0</u> |
| <u><u>11.9 %</u></u> | <u><u>30.2 %</u></u> | <u><u>8.3 %</u></u> | <u><u>24.1 %</u></u> | <u><u>30.0 %</u></u> |

Fort Bend County Municipal Utility District No. 5
Board Members, Key Personnel and Consultants
Year Ended July 31, 2018

| | |
|--|---|
| Complete District mailing address: | Fort Bend County Municipal Utility District No. 5 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027 |
| District business telephone number: | 713.860.6400 |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | <u>September 27, 2018</u> |
| Limit on fees of office that a director may receive during a fiscal year: | <u>\$ 7,200</u> |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|----------------------|---|--------------|-----------------------------------|--------------------------------|
| Margaret Greenwood | Elected 05/16- 05/20 | \$ 1,500 | \$ 504 | President |
| Gary Smith | Elected 05/16- 05/20 | 1,800 | 428 | Vice President |
| Bobby Adams | Elected 05/18- 05/22 | 2,850 | 2,597 | Secretary |
| Nancy Hedrick | Elected 05/18- 05/22 | 900 | 206 | Assistant Vice President |
| Terry Taylor | Elected 05/18- 05/22 | 600 | 150 | Assistant Secretary |

*Fees are the amounts actually paid to a director during the District's fiscal year.

Fort Bend County Municipal Utility District No. 5
Board Members, Key Personnel and Consultants (Continued)
Year Ended July 31, 2018

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|--|-------------------|--|----------------------------|
| Allen Boone Humphries Robinson LLP | 05/23/06 | \$ 104,685 | Attorney |
| BKD, LLP | 07/29/08 | 25,500 | Auditor |
| Fort Bend Central Appraisal District | Appointed | 12,286 | Appraiser |
| McLennan & Associates, LP | 06/16/06 | 17,985 | Bookkeeper |
| Municipal Operations & Consulting, Inc. | 09/22/11 | 470,867 | Operator |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 01/19/07 | 2,669 | Delinquent Tax Attorney |
| R.G. Miller Engineers, Inc. | 05/23/06 | 140,416 | Engineer |
| Robert W. Baird and Company Inc. | 02/26/15 | 15,350 | Financial Advisor |
| Tax Tech, Inc. | 06/16/06 | 19,220 | Tax Assessor/ Collector |
| Investment Officer | | | |
| Jorge Diaz | 01/30/17 | N/A | Bookkeeper |

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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