

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

The District designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations” herein.

**NEW ISSUE—BOOK-ENTRY ONLY**  
CUSIP No. 786681

**RATINGS: Underlying “A-” (stable outlook) / Insured “AA” (stable outlook) S&P**  
See “BOND INSURANCE” and “MUNICIPAL BOND RATING” herein

**\$4,500,000**

**SAGEMEADOW UTILITY DISTRICT**

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

**UNLIMITED TAX BONDS**

**SERIES 2019**

**Dated: June 1, 2019**

**Due: February 1 (as shown below)**

Interest on the Bonds (the “Bonds” or the “Series 2019 Bonds”) will accrue from June 1, 2019, and will be payable on February 1 and August 1 of each year, commencing February 1, 2020. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS.”

**The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company (“BAM”).**



**MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS**

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>
\$75,000	2021	3.000%	1.85%	\$125,000	2028 (b)	2.125%	2.45%
\$75,000	2022	3.000%	1.90%	\$125,000	2029 (b)	2.250%	2.60%
\$75,000	2023	3.000%	1.95%	\$125,000	2030 (b)	2.500%	2.75%
\$100,000	2024	3.000%	2.00%	\$125,000	2031 (b)	3.000%	2.80%
\$100,000	2025 (b)	2.000%	2.15%	\$150,000	2032 (b)	3.000%	2.85%
\$100,000	2026 (b)	2.000%	2.20%	\$150,000	2033 (b)	3.000%	2.90%
\$100,000	2027 (b)	2.000%	2.30%	\$150,000	2034 (b)	3.000%	2.95%

\$325,000 3.000% Term Bond Due February 1, 2036 to Yield 3.00% (a) (b) (c)  
 \$350,000 3.000% Term Bond Due February 1, 2038 to Yield 3.05% (a) (b) (c)  
 \$375,000 3.000% Term Bond Due February 1, 2040 to Yield 3.10% (a) (b) (c)  
 \$850,000 3.000% Term Bond Due February 1, 2044 to Yield 3.14% (a) (b) (c)  
 \$1,025,000 3.125% Term Bond Due February 1, 2048 to Yield 3.19% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined), and may be subsequently changed.
- (b) The Bonds maturing on or after February 1, 2025, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined) on February 1, 2024, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds within any one maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS—Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Sagemeadow Utility District (the “District”) to: (1) fund certain sanitary sewer system rehabilitation costs; (2) fund 12 months of capitalized interest; and (3) pay issuance and administrative expenses associated with the sale of the Bonds. See “USE OF BOND PROCEEDS.” The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain investment considerations described under the caption “RISK FACTORS.”**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel. Certain other matters will be passed upon on behalf of the District by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about June 13, 2019.

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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 registered or qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, 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 Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056, upon payment of duplication costs.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep their Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds. See "OFFICIAL STATEMENT – Updating of Official Statement."

**Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "Bond Insurance" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."**

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

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.0% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.153647% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial number of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING 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 THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## **Securities Laws**

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

## **CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12**

In the Bond Order, 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 the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

## **Annual Reports**

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. The financial information and operating data which will be provided with respect to the District is found in "DISTRICT DEBT" (except for the information under the subsection "Estimated Overlapping Debt"), "DISTRICT TAX DATA," to the extent available, and "APPENDIX A" (Audited Financial Statements of the District). The District will update and provide this information to EMMA approved by the staff of the United States Securities and Exchange Commission ("SEC") within six months after the end of each of its fiscal years ending in or after 2019.

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

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

## **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence by the District of a financial obligation, within the meaning of the Rule, which affects the 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 described in (15) above, any of which reflect financial difficulties of the District. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves, liquidity enhancement, the pledge of property (other than ad valorem tax revenues) to secure payment of the Bonds, or appointment of a trustee. In addition, the District will provide timely notice of any failure by the District

to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from MSRB**

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

### **Limitations and Amendments**

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

The District may amend its continuing disclosure agreement 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 Rule 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 last five years, the District has complied in all material aspects with its previous Continuing Disclosure agreements in accordance with SEC Rule 15c-12.

### **MUNICIPAL BOND RATING**

In connection with the sale of the Bonds the District has made application to Standard and Poor's Ratings Group ("S&P") which assigned the underlying rating of "A-" (stable outlook) on the Bonds based upon the District's underlying credit without bond insurance. The underlying rating to be released by S&P of the District will be maintained by S&P in addition to the rating by virtue of the bond insurance. See "BOND INSURANCE." An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P, and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that S&P rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Standard & Poor's Rating Group ("S&P") is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company ("BAM"). The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) 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.

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27<sup>th</sup> Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

### THE BONDS

- Description:** The \$4,500,000 Sagemeadow Utility District Unlimited Tax Bonds, Series 2019 (the "Bonds"), are dated June 1, 2019. The Bonds represent the ninth series of bonds to be issued by the District. The Bonds mature on February 1 in the years as shown in the table on the cover page of this Official Statement. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing, direct, annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or agency. See "THE BONDS - Source of and Security for Payment."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
- Use of Proceeds:** Proceeds from the sale of the Bonds will be used to: (1) fund certain sanitary sewer system rehabilitation costs; (2) fund 12 months of capitalized interest; and (3) pay issuance and administrative expenses associated with the sale of the Bonds. See "USE OF BOND PROCEEDS."
- Redemption Provisions:** The Bonds maturing on or after February 1, 2025, are subject to early redemption, in whole or part, on February 1, 2024, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on February 1, 2036, 2038, 2040, 2044, and 2048 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning February 1 in the years 2035, 2037, 2039, 2041, and 2045 respectively. See "THE BONDS – Mandatory Redemption."
- Legal Opinion:** Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/ Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
- Payment Record:** The District has never defaulted in the payment of principal or interest on any of its outstanding bonds.
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "RISK FACTORS" and "LEGAL MATTERS."
- Qualified Tax Exempt Obligations:** The District designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986 and the District represents that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2019 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
- Municipal Bond Rating:** In connection with the sale of the Bonds the District has made application to S&P which assigned the underlying rating of "A-" (stable outlook) on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P, and the District makes no representation as to the appropriateness of such rating. See "MUNICIPAL BOND RATING."



**Municipal Bond Insurance:**

S&P is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

**THE DISTRICT**

**Description:**

The District is a municipal utility district created by an act of the 62nd Texas Legislature, Regular Session, 1971. The District is subject to the jurisdiction of the Texas Commission on Environmental Quality ("TCEQ" or "Commission"). The District operates pursuant to the authority of Chapters 49 and 54, Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The District is located within Harris County, Texas, and within the exclusive extraterritorial jurisdiction of the City of Houston, Texas (the "City"). The District is located in southern Harris County and lies approximately 15 miles southeast of the City's central business district. The District is located approximately 0.5 miles south and approximately 2 miles west of the intersection of the Sam Houston Toll Road and Interstate 45. See "THE DISTRICT – Authority," and " – Description and Location."

**Development of the District:**

Substantially all of the District was developed and built out during the 1970's as the subdivisions known as Sage Meadow, Sections 1 – 8 and Kirkwood South, Sections 1 – 6. Such development includes 1,979 homes. Residential development in the District also includes the 156 lot subdivision known as The Lake at Golfcrest subdivision ("Golfcrest") which was built-out during 2014. In total, the District includes 2,135 homes and as of April 1, 2019, approximately 2,124 homes in the District were occupied. Additional building development in the District includes one 200-unit apartment complex and approximately 7 acres of commercial retail space, including a convenience store, a hardware store, a car wash, and an air conditioning/heating company. See "THE DISTRICT – Status of Land Development/Land Uses in the District," and " – Current Status of Development."

**The System:**

The District has a water supply and wastewater treatment capacity that is more than adequate to serve the fully built-out District. The land within the District generally drains to the southeast via curb and gutter street and underground storm sewers into the Harris County Flood Control District channels and then into the Clear Creek watershed. See "THE SYSTEM."

**SELECTED FINANCIAL INFORMATION  
(Unaudited)**

<b>2018 Certified Taxable Valuation</b>	<b>\$285,384,539</b> (a)
Direct Debt	
Outstanding Bonds (as of April 1, 2019)	\$9,395,000
The Bonds	<u>\$4,500,000</u>
<b>Total Direct Debt</b>	<b>\$13,895,000</b>
Estimated Overlapping Debt	<u>\$19,240,781</u>
<b>Direct and Estimated Overlapping Debt</b>	<b>\$33,135,781</b>
Percentage of Direct Debt to:	
2018 Certified Taxable Valuation (See "District Debt")	4.87%
Percentage of Direct and Estimated Overlapping Debt to:	
2018 Certified Taxable Valuation (See "District Debt")	11.61%
2018 Tax Rate Per \$100 of Assessed Value	
Debt Service Tax	\$0.15
Maintenance Tax	\$0.19
Contract Fire Tax	<u>\$0.11</u>
Total 2018 Tax Rate	\$0.45
Cash and Temporary Investment Balances as of May 8, 2019	
General Fund	\$2,779,935
Debt Service Fund	\$428,406 (b)

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- (a) Represents the 2018 Certified Taxable Valuation as provided by the Harris County Appraisal District ("HCAD"). See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Includes 12 months of capitalized interest on the Bonds, which will be deposited into the District's Debt Service Fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA – Adequacy of Tax Revenue."

**DEBT SERVICE REQUIREMENTS**

The following sets forth the debt service on the District's outstanding bonds and the debt service requirements for the Bonds.

Year	Existing Debt Service Requirements	Debt Service on the Series 2019 Bonds		Total Debt Service Requirements
		Principal	Interest	
2019	\$571,812			\$571,812
2020	\$563,812		\$152,395	\$716,207
2021	\$580,187	\$75,000	\$129,500	\$784,687
2022	\$596,806	\$75,000	\$127,250	\$799,056
2023	\$589,118	\$75,000	\$125,000	\$789,118
2024	\$605,312	\$100,000	\$122,375	\$827,687
2025	\$620,187	\$100,000	\$119,875	\$840,062
2026	\$609,687	\$100,000	\$117,875	\$827,562
2027	\$599,187	\$100,000	\$115,875	\$815,062
2028	\$613,312	\$125,000	\$113,546	\$851,858
2029	\$626,687	\$125,000	\$110,812	\$862,499
2030	\$614,468	\$125,000	\$107,843	\$847,311
2031	\$626,655	\$125,000	\$104,406	\$856,061
2032	\$613,249	\$150,000	\$100,281	\$863,530
2033	\$648,812	\$150,000	\$95,781	\$894,593
2034	\$632,750	\$150,000	\$91,281	\$874,031
2035	\$640,437	\$150,000	\$86,781	\$877,218
2036	\$647,093	\$175,000	\$81,906	\$903,999
2037	\$652,311	\$175,000	\$76,656	\$903,967
2038	\$690,250	\$175,000	\$71,406	\$936,656
2039	\$666,750	\$175,000	\$66,156	\$907,906
2040	\$290,000	\$200,000	\$60,531	\$550,531
2041	\$304,500	\$200,000	\$54,531	\$559,031
2042	\$318,000	\$200,000	\$48,531	\$566,531
2043	<u>\$306,000</u>	\$225,000	\$42,156	\$573,156
2044		\$225,000	\$35,406	\$260,406
2045		\$250,000	\$28,125	\$278,125
2046		\$250,000	\$20,312	\$270,312
2047		\$250,000	\$12,500	\$262,500
2048		<u>\$275,000</u>	<u>\$4,296</u>	<u>\$279,296</u>
	<b>\$14,227,382</b>	<b>\$4,500,000</b>	<b>\$2,423,388</b>	<b>\$21,150,770</b>

Maximum Annual Debt Service Requirements (2038) ..... \$936,656

\$0.35 Tax Rate on the 2018 Certified Taxable Value of \$285,384,539

@ 95% collections produces ..... \$948,904

## OFFICIAL STATEMENT

relating to

\$4,500,000

### SAGEMEADOW UTILITY DISTRICT

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

### UNLIMITED TAX BONDS SERIES 2019

#### INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$4,500,000 Sagemeadow Utility District Unlimited Tax Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code as amended, an order (the "Bond Order") adopted by the Board of Directors of Sagemeadow Utility District (the "District"), an election held within the District and an approving order of the Texas Commission on Environmental Quality ("TCEQ" or "Commission").

This Official Statement includes descriptions of the Bonds, the Bond Order, certain information about the District and its financial condition, and the developers in the District. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE ONLY SUMMARIES AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from Bond Counsel upon payment of duplication costs thereof.

#### RISK FACTORS

##### General

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston (the "City"), or any other political subdivision, are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners or that there will be a market for such property.

##### Marketability

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

##### Tax Collections

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 impaired by: (a) repetitive, annual, expensive collection procedures; (b) a federal bankruptcy court's stay of tax collection procedures; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. 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. See "TAXING PROCEDURES – District's Rights in the Event of Tax Delinquencies."

## **Registered Owners' Remedies**

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 Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. 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. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment 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.

## **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if 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.

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

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

A district cannot be placed into bankruptcy involuntarily.

## **Approval of the Bonds**

As required by law, engineering plans, specifications and estimates of construction costs for the facilities to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. Neither the TCEQ nor the Attorney General of Texas pass upon or guarantee the safety of the Bonds as an investment nor the adequacy or accuracy of the information contained in this Official Statement.

## **Economic Factors**

The continued maintenance of taxable values in the District is directly related to the housing and building industry. The housing and building industry has historically been a cyclical industry, affected by both short- and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions including the relative price of oil and natural gas. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for new homes, hence reducing demand by homebuilders for lots within the District. Commercial building in the District could also be adversely affected by such economic developments.

Interest rates and the availability of mortgage and development funds have a direct impact on construction activity, particularly the short-term interest rates at which developers and builders are able to obtain financing for development or building costs. Interest rate levels may affect the developers' or builders' ability to complete development or building plans. Long-term interest rates affect home purchasers' ability to qualify for and afford the total financing costs of a new home. The continuation of long-term interest rates at higher levels may negatively affect home sales and the rate of growth of taxable values in the District.

The Houston metropolitan area has, in the past, experienced increased unemployment, business failures and slow absorption of office space. These factors, if they recur, could affect the demand for new residential home construction and commercial development and hence the growth of property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values or, in some instances, cause builders to abandon home-building plans altogether.

The housing industry in the Houston area is competitive and the District can give no assurance that current building programs will be completed. The competitive position of the developer in the sale of its developed lots or, respectively, that of present and prospective builders in the construction of single-family residential houses is affected by most of the factors discussed herein. Such a competitive position is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

Alternative sites are available for the construction of single-family residential improvements and commercial development within the market area in which the District is located. Such sites could pose competition to the continued home-building development and commercial development on comparable sites within the District.

## **Potential Impact of Future Development on District Tax Rates**

The District's 2018 debt service tax rate is \$0.15 per \$100 of assessed valuation.

Assuming no further construction of residential, multi-family and/or commercial projects within the District other than those that have been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the District's Maximum Annual Debt Service Requirements will be \$936,656 (2038). The 2018 Certified Taxable Valuation of property within the District is \$285,384,539. Assuming no increase or decrease from the 2018 Certified Taxable Valuation and no use of other District funds, a tax rate of \$0.35 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. See "DISTRICT TAX DATA – Adequacy of Tax Revenue."

## **Future Debt**

The District's voters have authorized the issuance of a total of \$15,000,000 of unlimited tax bonds for the purposes of providing water, sewer, and drainage facilities and the District could authorize additional amounts in the future. The District has \$5,700,000 unlimited tax bonds for water, sewer and drainage facilities that will remain authorized, but unissued, after the issuance of the Bonds. The District has the right to issue additional new money bonds as may hereafter be approved by both the Board and the voters of the District and may issue refunding bonds without additional elections so long as they do not exceed the principal amount of then outstanding bonds. Any future new money bonds to be issued by the District must also be approved by the TCEQ. Such additional new money bonds or refunding bonds would be issued on a parity with the Bonds.

## **Financing Parks and Recreational Facilities**

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

In addition, the District may levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District, after such tax is approved at an election. The District has not authorized an operations and maintenance tax for parks and recreational facilities.

Current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

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

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

### **Environmental and Air Quality Regulations**

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

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

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 TCEQ may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston Bay area ("HGB area") — Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties — was originally designated by the EPA as a moderate ozone nonattainment area under the "8-hour" ozone standard of 80 parts per billion ("ppb") ("the 1997 Ozone Standard). Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA's "8-hour" ozone standards are met To provide for reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. On June 15, 2007, the Governor of the State of Texas requested a voluntary reclassification of the HGB area to a severe ozone nonattainment area under the 1997 Ozone Standard, with an attainment date of June 15, 2019. On October 1, 2008, the EPA granted this request. The severe classification gives the HGB area more time to reach attainment under the 1997 Ozone Standards. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HGB area's economic growth and development.

In 2008, the EPA lowered the ozone standard to 75 ppb (the "2008 Ozone Standard"), and designated the HGB area as a marginal ozone nonattainment area The HGB was required to reach attainment under the 2008 Ozone Standard no later than July 20, 2018, but is currently designated as a moderate nonattainment area under such standard. Because the HGB area has failed to demonstrate progress in reducing ozone concentrations and failed to meet EPA's standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard to 70 ppb (the "2015 Ozone Standard"). On May 1, 2018, the EPA designated the HGB area as a marginal ozone nonattainment area under the 2015 Ozone Standards. The HGB designation became effective on August 3, 2018, sixty (60) days after publication of the ruling in the Federal Register on June 4, 2018. A designation of nonattainment for ozone or any pollutant 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. This designation could additionally make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

In order to comply with the EPA's standards for the HGB area, the TCEQ has established a state implementation plan ("SIP") 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.

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

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

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

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

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

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

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



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

### **Bond Insurance Risk Factors**

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

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 description of "BOND INSURANCE" herein.

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 Issuer nor the Underwriters 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 Issuer 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 "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

### **Changes in Tax Legislation**

Certain tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, and 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.

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

## **2019 Legislative Session**

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, 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.

## **Hurricane Harvey**

The Houston area, including the area in and around the District in Harris County, sustained widespread wind and rain damage and flooding 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 District's Operator and the District's Engineer, the water, sewer, and drainage facilities serving the land within the District did not sustain any significant damage and there was no interruption of water and sewer service to residents of the District. According to the District's Operator and the District's Engineer, approximately 309 homes and approximately 100 multi-family apartment units within the District experienced flooding as a result of Hurricane Harvey. To the best of the District's knowledge, substantially all of the homes that experienced flooding as a result of Hurricane Harvey have been rehabilitated. Additionally, all of the multi-family apartment units that experienced flooding as a result of Hurricane Harvey were located on the first floor of the apartment complex, and have since been rehabilitated and are currently leased or available for leasing.

## **Inclement Weather**

The District is located approximately 60 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. See "TAXING PROCEDURES – Valuation of Property for Taxation." Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

## **Specific Flood Type Risks**

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

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

## **Reappraisal of Property**

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 pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The District has not requested a reappraisal of property. See "TAXING PROCEDURES – Valuation of Property for Taxation."

**Harris County and City of Houston Floodplain Regulations**

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

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

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

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

**USE OF BOND PROCEEDS**

Proceeds from the sale of the Bonds will be used to fund: (1) fund certain sanitary sewer system rehabilitation costs; (2) fund 12 months of capitalized interest; and (3) pay issuance and administrative expenses associated with the sale of the Bonds.

The Engineer has advised the District that the proceeds listed below should be sufficient for the rehabilitation of certain portions of the District's sanitary sewer collection facilities. The District's present estimate of the use of proceeds of the Bonds as approved by the TCEQ is as follows:

<b>CONSTRUCTION COSTS:</b>	<b>Total Amount</b>
Sanitary Sewer System Rehabilitation	\$3,550,000
Contingencies	<u>\$355,000</u>
<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$3,905,000</b>
<b>NON-CONSTRUCTION COSTS:</b>	
Legal Fees	\$82,500
Fiscal Agent Fees	\$85,500
Capitalized Interest (12 months)	\$130,625
Bond Discount	\$135,000
Bond Issuance Expenses	\$32,500
Bond Application Report Costs	\$30,000
Attorney General Fee	\$4,500
TCEQ Bond Issuance Fee	\$11,250
Contingency	<u>\$83,125</u> (a)
<b>TOTAL NON-CONSTRUCTION COSTS</b>	<b>\$595,000</b>
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$4,500,000</b>

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(a) The TCEQ Order requires that the District designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the rate initially projected in the District's Bond Application to the TCEQ as a contingency line item in the Final Official Statement. Such funds may be used by the District only in compliance with TCEQ rules.

## THE DISTRICT

### Authority

The District is a municipal utility district created by an act of the 62nd Legislature of the State of Texas, Regular Session in 1971. The District operates pursuant to the authority of Chapters 49 and 54, Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. 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, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. 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. Additionally, under certain limited circumstances the District also is authorized to construct, develop, and maintain park and recreational facilities.

### Description and Location

The District currently includes approximately 591 acres. The District is located within the exclusive extraterritorial jurisdiction ("ETJ") of the City. The District is located in southern Harris County and lies approximately 15 miles southeast of the City's central business district. The District is located approximately 0.5 miles south and approximately 2 miles west of the intersection of the Sam Houston Toll Road and Interstate 45.

### Status of Land Development/Land Uses in the District

A summary of the approximate land use in the District as of April 1, 2019, appears in the table below:

<u>Type of Land Use</u>	<u>Approximate Acres</u>	
Sage Meadow & Kirkwood South Subdivisions	531	(a)
The Lake at Golfcrest Subdivision	43	(b)
Remaining developable acres	0	
Undevelopable acres	<u>17</u>	(c)
<b>Total Approximate Acres</b>	<b>591</b>	

- 
- (a) Represents the 1,979 lots developed during the 1970's as the Sage Meadow and Kirkwood South subdivisions and 7 acres of commercial reserves.
  - (b) Includes the 156 lots (all of which are built upon) developed as Golfcrest where homebuilding was completed during 2014.
  - (c) Includes land in detention/drainage rights-of-way, plant sites, and pipe line easements.

### Current Status of Development

As of April 1, 2019, the single-family residential development in the District includes approximately 2,135 completed homes, approximately 2,124 of which were occupied.

Additionally, the District includes one 200-unit apartment complex, approximately 7 acres of commercial development that presently includes a convenience store, a hardware store, a car wash, and an air conditioning/heating company.

## THE SYSTEM

### Regulation

According to the District's engineer, IDS Engineering Group ("Engineer"), the District's water distribution, wastewater collection and drainage facilities (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 Commission, the City and Harris County. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the Commission.

## **Water System**

The District currently receives water from the City's water supply system. The District and Kirkmont Municipal Utility District ("Kirkmont") entered into an agreement to form the Regional Water Advisory Committee ("RWAC"). Under the terms of the RWAC agreement, the two districts shared in the costs of the water transmission facilities which convey surface water from the City to the District's water supply plants. Pursuant to the RWAC agreement with Kirkmont, the District operates its two water supply plants which deliver the treated surface water supplied by the City to the District's distribution system and to Kirkmont's distribution system.

In addition to its surface water supply system described above, the District maintains its groundwater supply source consisting of a water well at each of its water supply plants described above. The ground water supply source serves as a backup water supply in the event of a disruption of water service from the City of Houston. According to the District's Engineer, the District has water supply capacity that is more than adequate to service the District.

The District has interconnects with Kirkmont, both of which are located at the District's northwest boundary. The interconnects are normally open to provide for the delivery of surface water to Kirkmont's distribution system. Additionally, the District has emergency interconnects with Clear Brook City Municipal Utility District located at the District's southern and western boundaries.

## **Wastewater System**

The District has entered into a Waste Disposal Agreement with the City for wastewater treatment capacity to serve the ultimate requirements of the District. The District is served by the City's Southeast Wastewater Treatment Plant. Under the terms of the Waste Disposal Agreement with the City, the District has purchased 2,381 ESFC's of wastewater treatment capacity which exceeds the amount of capacity necessary to serve the District.

## **Drainage System**

The underground storm sewer facilities that serve the District include curb and gutter streets with underground storm sewers. The District's storm sewers generally drain in a southeasterly direction into two Harris County Flood Control District earthen channels which in turn drain into Clear Creek. Additionally, the Lake at Golfcrest development includes a detention pond that serves that subdivision. Approximately 93 acres of developed land within the District lies within the 100-year flood plain as depicted on the Federal Emergency Management Agency's Flood Insurance Rate Map Panel 48201C1055L which became effective June 18, 2007.

**Historical Operations of the System**

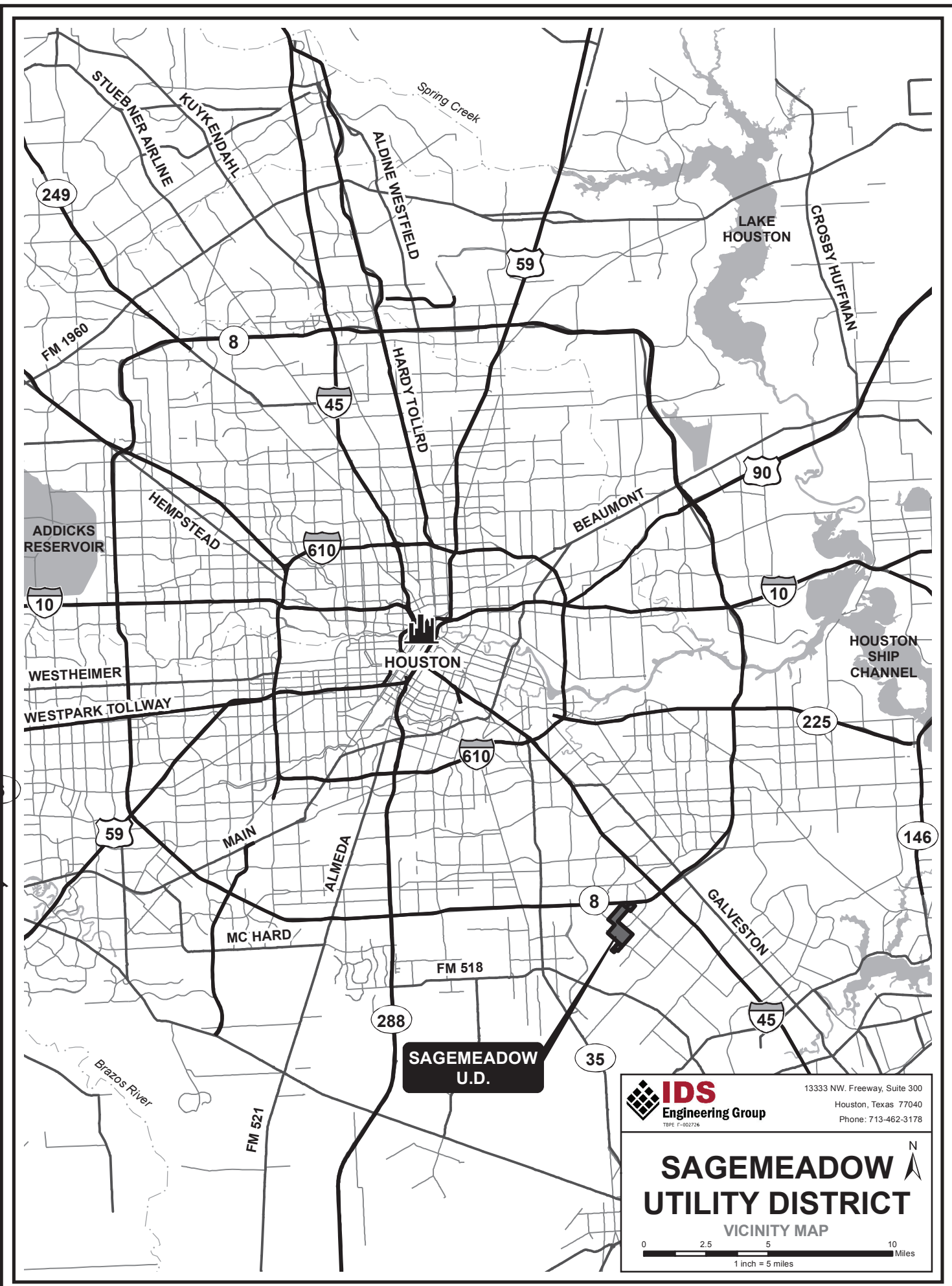
The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The information included in the table below relating to the District's water and sewer system operations is provided for information purposes only.

GENERAL FUND	Fiscal Year End September 30 (a)				
	2018	2017	2016	2015	2014
<b>REVENUES</b>					
Property taxes	\$817,619	\$736,956	\$800,050	\$747,879	\$686,805
Water service	\$1,058,003	\$1,029,711	\$987,472	\$902,960	\$901,577
Sewer service	\$857,781	\$855,808	\$816,244	\$740,346	\$714,031
Maintenance fee	-	-	-	\$246,788	\$265,638
Security fee	\$269,281	\$202,947	\$182,032	\$15,278	-
Penalty and interest	\$62,065	\$66,452	\$75,869	\$63,982	\$48,050
Tap connection and inspection fees	\$11,824	\$9,572	\$7,750	\$10,154	\$35,783
Investment income	\$33,919	\$15,736	\$7,087	\$3,646	\$3,128
Other income	-	-	-	-	\$105,177
<b>TOTAL REVENUES</b>	<b>\$3,110,492</b>	<b>\$2,917,182</b>	<b>\$2,876,504</b>	<b>\$2,731,033</b>	<b>\$2,760,189</b>
<b>EXPENDITURES</b>					
Service operations:					
Purchased services	\$775,393	\$775,556	\$790,629	\$773,235	\$849,256
Professional fees	\$131,660	\$116,494	\$113,103	\$111,563	\$105,217
Contracted services	\$774,013	\$703,259	\$647,817	\$610,011	\$574,931
Solid waste	\$346,641	\$369,793	\$370,556	\$352,306	\$341,011
Utilities	\$32,407	\$33,711	\$39,944	\$42,402	\$45,037
Repairs and maintenance	\$588,149	\$373,040	\$431,460	\$391,935	\$500,478
Other expenditures	\$101,958	\$102,455	\$98,978	\$116,706	\$123,997
Tap connections	-	-	-	\$1,000	\$10,567
Capital outlay	\$65,665	-	-	\$18,724	\$42,162
Debt issuance costs	\$13,260	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$2,829,146</b>	<b>\$2,474,308</b>	<b>\$2,492,487</b>	<b>\$2,417,882</b>	<b>\$2,592,656</b>
<b>EXCESS REVENUES/EXPENDITURES</b>	<b>\$281,346</b>	<b>\$442,874</b>	<b>\$384,017</b>	<b>\$313,151</b>	<b>\$167,533</b>
<b>Other Financing Sources</b>					
Interfund transfers in	-	-	-	-	\$5,917
<b>EXCESS/DEFICIENCY</b>	<b>\$281,346</b>	<b>\$442,874</b>	<b>\$384,017</b>	<b>\$313,151</b>	<b>\$173,450</b>
<b>BEGINNING FUND BALANCE</b>	<b>\$2,330,879</b>	<b>\$1,888,005</b>	<b>\$1,503,988</b>	<b>\$1,190,837</b>	<b>\$1,017,387</b>
<b>END FUND BALANCE (b)</b>	<b>\$2,612,225</b>	<b>\$2,330,879</b>	<b>\$1,888,005</b>	<b>\$1,503,988</b>	<b>\$1,190,837</b>

(a) Data is taken from District's audited financial statements. See "APPENDIX A."

(b) As of May 8, 2019, the District's General Fund had an unaudited cash balance of approximately \$2,779,935. The General Fund budget for the fiscal year ending 2019 calls for General Fund revenues of approximately \$3,235,105 and expenditures of approximately \$2,853,057.

IDS Engineering Group \\Hou-sde01\Projects\06000649-005-00\_Sagemeadow\U.D. VicMap\_8.5x11.mxd Plotted: 11/20/2012 at 8:07:34 AM by karlaz



**IDS**  
Engineering Group  
TPEE F-00226

13333 NW. Freeway, Suite 300  
Houston, Texas 77040  
Phone: 713-462-3178


**SAGEMEADOW  
UTILITY DISTRICT**

VICINITY MAP

0 2.5 5 10 Miles  
1 inch = 5 miles

HWY 9

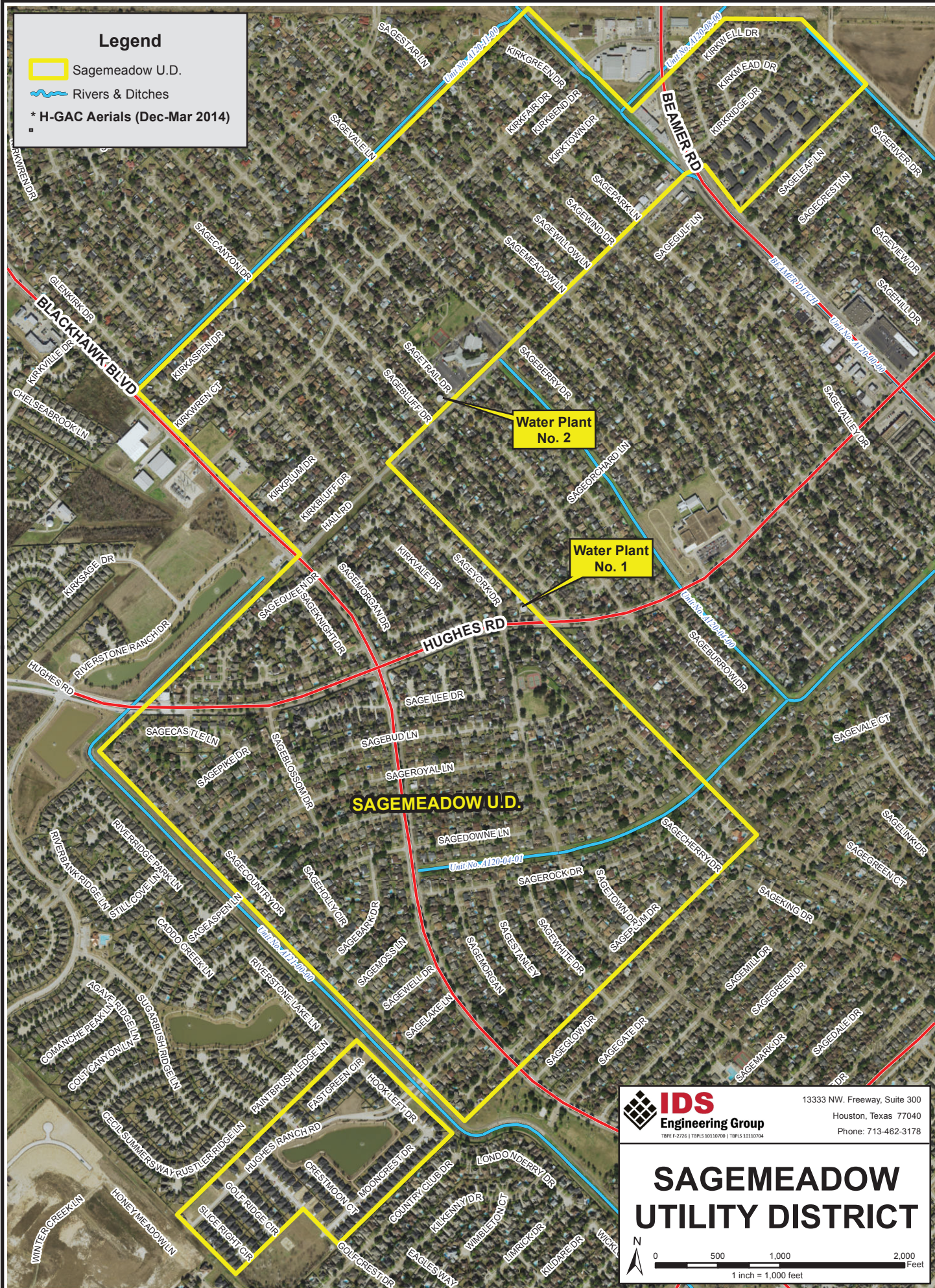
### Legend

 Sagemeadow U.D.

 Rivers & Ditches

\* H-GAC Aerials (Dec-Mar 2014)

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**SAGEMEADOW U.D.**

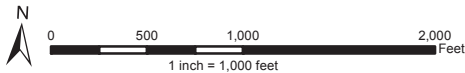
**Water Plant No. 2**

**Water Plant No. 1**

**IDS**  
Engineering Group  
1999-2-226 | 19915 10310700 | 19915 10310704

13333 NW, Freeway, Suite 300  
Houston, Texas 77040  
Phone: 713-462-3178

# SAGEMEADOW UTILITY DISTRICT





## MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board") which has control over and management supervision of all affairs of the District. All of the directors reside in the District. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Expires May</u>
Timothy A. Beyer	President	2022
Glenn D. Williams	Vice President	2020
John E. Elam	Assistant Vice President	2022
David C. Montgomery	Secretary/Treasurer	2020
Carl T. Heinrich	Assistant Secretary/Treasurer	2022

The District does not employ a general manager or any other full-time employees. The District has contracted for utility system operating, bookkeeping, tax assessing and collecting services, and annual auditing of its financial statements as follows:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Bob Leared Interests, Inc., who is employed under an annual contract and represents approximately 150 other utility districts.

Bookkeeper – The District's Bookkeeper is Municipal Accounts & Consulting, L.P., which acts as bookkeeper for approximately 150 other utility districts.

Auditor – The financial statements of the District as of September 30, 2018, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Utility System Operator – The System's operator is Municipal District Services.

Engineer – The consulting engineer for the District is IDS Engineering Group (the "Engineer").

Financial Advisor – The GMS Group, L.L.C., serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of the bonds, if and when such bonds are delivered

Bond Counsel – Sanford Kuhl Hagan Kugle Parker Kahn LLP serves as Bond Counsel to the District and as general counsel to the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Disclosure Counsel – Norton Rose Fulbright US LLP, Houston, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds, but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds. Such fees are contingent upon the sale and delivery of such Bonds.

## DISTRICT INVESTMENT POLICY

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield in its portfolio. Funds of the District are invested in short-term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the District portfolio.

**DISTRICT DEBT**

<b>2018 Certified Taxable Valuation</b>	<b>\$285,384,539</b>	(a)
Direct Debt		
Outstanding Bonds (as of April 1, 2019)	\$9,395,000	
The Bonds	<u>\$4,500,000</u>	
<b>Total Direct Debt</b>	<b>\$13,895,000</b>	
Estimated Overlapping Debt	<u>\$19,240,781</u>	
<b>Direct and Estimated Overlapping Debt</b>	<b>\$33,135,781</b>	
Percentage of Direct Debt to:		
2018 Certified Taxable Valuation	4.87%	
Percentage of Direct and Estimated Overlapping Debt to:		
2018 Certified Taxable Valuation	11.61%	
2018 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.15	
Maintenance Tax	\$0.19	
Contract Fire Tax	<u>\$0.11</u>	
Total 2018 Tax Rate	\$0.45	
Cash and Temporary Investment Balances as of May 8, 2019		
General Fund	\$2,779,935	
Debt Service Fund	\$428,406	(b)

- 
- (a) Represents the 2018 Certified Taxable Valuation as provided by HCAD. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Includes 12 months of capitalized interest on the Bonds, which will be deposited into the District's Debt Service Fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA – Adequacy of Tax Revenue."

**Estimated Overlapping Debt**

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts 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, the amount of which has not been reported. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

<b><u>Taxing Jurisdiction</u></b>	<b><u>Outstanding Debt</u></b>	<b><u>Overlapping Debt</u></b>	
		<b><u>Overlapping %</u></b>	<b><u>Amount</u></b>
Harris County	\$1,607,663,022	0.06%	\$964,597
Harris County Department of Education	\$6,320,000	0.06%	\$3,792
Harris County Flood Control District	\$83,075,000	0.06%	\$49,845
Harris County Hospital District	\$57,300,000	0.06%	\$34,380
Port of Houston Authority	\$593,754,397	0.06%	\$356,252
Pasadena Independent School District	\$753,985,000	2.02%	\$15,230,497
San Jacinto Community College District	\$500,272,707	0.52%	\$2,601,418
<b>Total Estimated Overlapping Debt</b>			<b>\$19,240,781</b>
The District (a)			\$13,895,000
<b>Total Direct and Estimated Overlapping Debt</b>			<b>\$33,135,781</b>

(a) Includes the Bonds.

**DISTRICT TAX DATA**

**Tax Rate and Collections**

The following table sets forth the historical tax information collection experience of the District for the years 2014 through 2018, as of March 31, 2019. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<b><u>Tax Year</u></b>	<b><u>Taxable Valuation</u></b>	<b><u>Tax Rate (a)</u></b>	<b><u>Tax Levy</u></b>	<b><u>Cumulative Tax Collections</u></b>	<b><u>Tax Year Ended September 30</u></b>
2018	\$285,384,539	\$0.450	\$1,284,230	96%	(b)
2017	\$281,865,135	\$0.450	\$1,268,393	99%	2018
2016	\$256,604,897	\$0.460	\$1,180,383	99%	2017
2015	\$242,264,729	\$0.500	\$1,211,324	99%	2016
2014	\$219,621,745	\$0.520	\$1,142,033	100%	2015

(a) See "Tax Rate Distribution" herein.

(b) The 2018 taxes were due on January 31, 2019. According to the District's records, the current tax collections have averaged approximately 98% for the past five years.

**Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District and its facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. The District's voters have authorized a maintenance tax of up to \$0.50 per \$100.00 of assessed valuation at elections held on August 13, 1983, and May 11, 2013. See " – Tax Rate Distribution" herein.

**Fire Tax**

The District has the statutory authority to undertake fire-fighting activities after developing and adopting a fire-fighting plan which must be then approved by the voters of the District. A fire-fighting plan was approved by the voters of the District on November 4, 1997. In order to finance fire-fighting activities under this plan, the District levied a fire-service contract tax of \$0.11 per \$100 of assessed value for tax year 2018.

**Debt Service Tax**

The Board covenants in the Bond Order 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.

**Tax Rate Distribution**

The following table sets forth the tax rate distribution of the District for the years 2014 through 2018.

	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Debt Service	\$0.15	\$0.16	\$0.17	\$0.17	\$0.18
Maintenance/Operation	\$0.19	\$0.18	\$0.18	\$0.22	\$0.23
Contract	<u>\$0.11</u>	<u>\$0.11</u>	<u>\$0.11</u>	<u>\$0.11</u>	<u>\$0.11</u>
<b>Total</b>	<b>\$0.45</b>	<b>\$0.45</b>	<b>\$0.46</b>	<b>\$0.50</b>	<b>\$0.52</b>

**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 May 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

**Principal Taxpayers**

The list of principal taxpayers for 2018 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<b><u>Property Owner</u></b>	<b><u>Property Description</u></b>	<b><u>Property Value</u></b>	<b><u>% of Total</u></b>
11717 Beamer Road LLC	Land & Improvements	\$9,260,301	3.24%
Centerpoint Energy Houston/Entex	Personal Property	\$2,491,740	0.87%
Comcast of Houston LLC	Personal Property	\$887,490	0.31%
Homeowner	Land & Improvements	\$757,000	0.27%
M&D Ace Partners LLC	Personal Property	\$699,932	0.25%
CSH 2016 2 Borrower LLC	Land & Improvements	\$632,349	0.22%
Homeowner	Land & Improvements	\$447,146	0.16%
Homeowner	Land & Improvements	\$441,133	0.15%
Homeowner	Land & Improvements	\$389,536	0.14%
Homeowner	Land & Improvements	<u>\$346,044</u>	<u>0.12%</u>
<b>TOTALS</b>		<b>\$16,352,671</b>	<b>5.73%</b>

**Analysis of Tax Base**

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the exemptions for 2014 through 2018.

Year	Type of Property			Gross Value	Exemptions (a)	Taxable Value
	Land	Improvements	Personal Property			
2018	\$75,467,883	\$294,871,698	\$5,118,310	\$375,457,891	\$90,073,352	\$285,384,539
2017	\$75,464,854	\$304,213,993	\$4,897,687	\$384,576,534	\$102,711,399	\$281,865,135
2016	\$73,205,483	\$271,293,228	\$5,460,324	\$349,959,035	\$93,354,138	\$256,604,897
2015	\$54,730,404	\$267,740,980	\$5,391,416	\$327,862,800	\$85,598,071	\$242,264,729
2014	\$52,765,861	\$235,143,437	\$4,836,816	\$292,746,114	\$73,124,369	\$219,621,745

(a) Substantially, all of the exemptions are attributable to the \$150,000 65-year and older exemption granted by the District. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."

**Estimated Overlapping Taxes**

The following table sets forth all 2018 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Entities</u>	<u>2018 Tax Rates</u>
Harris County (a)	\$0.635170
Pasadena Independent School District	\$1.480000
San Jacinto Community College District	\$0.179329
<b>Overlapping Taxes</b>	<b>\$2.294499</b>
 The District	 \$0.450000
<b>Total Direct &amp; Overlapping Taxes</b>	<b>\$2.744499</b>

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

**Adequacy of Tax Revenue**

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the 2018 Certified Taxable Valuation and utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2038) .....	\$936,656
Requires a \$0.35 debt service tax rate on the 2018 Certified Taxable Valuation at 95% collections.....	\$948,904

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See "RISK FACTORS - Future Debt." The District agrees in the Bond Order to levy such a tax from year to year as described more fully in this Official Statement under the caption "THE BONDS - Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by the voters in the District. See "DISTRICT TAX DATA - Maintenance Tax."

### **Tax Code and County-Wide Appraisal District**

The Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central Appraisal District ("HCAD") has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll 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; however, no effort is expected to be made by HCAD to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles.

In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District currently grants, and has granted each year for the previous 30 years, an exemption of \$150,000, and in some years up to \$200,000, of the appraised value of the residence homestead of an individual who is disabled or is 65 years of age or older, pursuant to Section 11.13, Texas Tax Code (the "Exemption"). It should be noted that the Exemption granted by the District exceeds such exemptions granted by similarly situated Harris County area districts (i.e. an average of approximately \$20,000 - \$25,000). The effect of this Exemption on the District's tax roll is a reduction in the District's taxable value of approximately \$77,000,000. This means that in order to generate the same amount of tax revenue, the District has levied a tax rate that is approximately \$0.12 per \$100 of taxable value higher than it would otherwise have to be if a \$25,000 over 65 exemption was granted by the District. The burden of this higher tax rate is borne, for the most part, by the non-elderly taxpayers in the District. The Exemption is granted from year to year, and future District Boards of Directors may increase or decrease the amount of the Exemption at their discretion. However, this Exemption in no way mitigates the District's unlimited tax pledge that secures the interest and principal payments on the Bonds and the District's outstanding bonds. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 of taxable valuation depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value to 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 including the surviving spouse of a disabled veteran who would have qualified for such an exemption if such exemption had been in effect on the date the disabled veteran died. Partially disabled veterans or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount would be transferrable to a subsequent residence homestead of the surviving spouse.

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector 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 July 1. The District has never adopted an order granting a general residential homestead exemption.

**Freeport Goods and Goods-in-Transit Exemptions:** A "Freeport Exception" 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 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

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

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

Generally, property in the District must be appraised by HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. 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 chief 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 for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

From time to time the District may be subject to a natural disaster such as a hurricane, tornado, tropical storm or other adverse weather event severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "RISK FACTORS – Inclement Weather". When requested by a local taxing unit, such as the District, HCAD is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. See "RISK FACTORS – Reappraisal of Property."

### **District and Taxpayer Remedies**

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals 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 (not to exceed 20%) established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount (not to exceed 20%) established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent (April 1). Similarly, a delinquent tax on real property incurs such additional penalty on July 1 of the year in which taxes become delinquent. 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 not to exceed 20%. 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 if the person: (1) has been granted an exemption under Section 11.13, Tax Code, (2) requests an installment agreement, and (3) has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) 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 deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral. Property owners affected by a disaster may pay property taxes in four equal installments following the disaster.

### **Delinquent Tax Payments for Disaster Areas**

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.



## **Rollback of Operation and Maintenance Tax Rate**

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

## **District's Rights in the Event of Tax Delinquencies**

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. 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 and land designated for agricultural use and six months for all other 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 (a taxpayer may redeem property within six months for commercial property, within two years for residence homesteads and land designated for agricultural use and six months for all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings that restrict the collection of taxpayer debts. See "RISK FACTORS - Tax Collections."

## **ANNEXATION AND CONSOLIDATION**

### **Annexation and Consolidation**

The District lies within the extraterritorial jurisdiction of the City. Generally under Texas law, the District may be annexed in whole, but not in part, by the City without the District's consent, in which case the City must assume the assets, functions and obligations of the District, including the Bonds. However, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

The District has the right to consolidate with other districts, and in connection therewith, to provide for the consolidation of its System (hereinafter defined) with the water and sewer systems of the district or districts with which it is consolidating. Should any such consolidation occur, the net revenues from the operation of the consolidated system would be applied to the payment of principal, interest, redemption price and bank charges on the combination unlimited tax and revenue bonds of the District, if any, and of the district or districts with which the District is consolidated without prejudice to any series of bonds, except that bonds with subordinate liens on net revenues shall continue to be subordinate. No representations are made that the District will ever consolidate its utility system with other systems.

### **Strategic Partnership Agreement – Limited Purpose Annexation by City of Houston**

The District has entered into a Strategic Partnership Agreement ("SPA") with the City whereby the tracts of land in the District projected for and containing commercial development were annexed into the City for limited purposes. The City 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 the City from time to time. Under the SPA, one-half (or 50%) of the sales tax revenue generated by the commercial business will be paid to the District, and the District can use the sales tax revenue to: (a) accelerate the development of the water, wastewater and drainage system in the District; (b) accelerate reimbursement to developers for eligible infrastructure development; (c) lower the overall property tax rate to encourage additional development; and (d) perform other District functions that might otherwise be diminished, curtailed, abbreviated or delayed by financial limitations.

The Sales and Use Tax was implemented within the annexed areas. The Comptroller of Public Accounts of the State of Texas remits the sales tax revenues to the City and the City then disburses to the District its share of the tax revenues.

Neither the District nor any owner of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

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

## **THE BONDS**

### **General**

The Bond Order authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Order. Capitalized terms in such summary are used as defined in the Bond Order. Such summary is not a complete description of the entire Bond Order and is qualified in its entirety by reference to the Bond Order, copies of which are available from the District's Bond Counsel upon request.

The Bonds are dated and will bear interest from June 1, 2019, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on February 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable February 1, 2020, and each August 1 and February 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15<sup>th</sup> day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See " – Book-Entry-Only System" herein.

In the event that the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15<sup>th</sup> calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

### **Optional Redemption**

The District reserves the right to redeem, prior to maturity the Bonds maturing on or after February 1, 2025, in whole or in part from time to time, on February 1, 2024, or on any date thereafter, at a price of par plus accrued interest to the date of redemption. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be redeemed will be selected by the District. If fewer than all of the Bonds within any one maturity are redeemed, the particular Bonds to be redeemed shall be selected by the Registrar by lot or other random selection method. Notice of each exercise of the right of redemption will be given at least thirty days prior to the date fixed for redemption by mailing written notice by first class mail to each of the Registered Owners (the "Registered Owners") of the Bonds to be redeemed. When Bonds have been called for redemption, they will become due and payable on the redemption date.

### **Mandatory Redemption:**

The Bonds maturing in the years 2036, 2038, 2040, 2044, and 2048 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

#### **\$325,000 Term Bonds, due February 1, 2036**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
February 1, 2035	\$150,000
February 1, 2036 (maturity)	\$175,000

**\$350,000 Term Bonds, due February 1, 2038**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
February 1, 2037	\$175,000
February 1, 2038 (maturity)	\$175,000

**\$375,000 Term Bonds, due February 1, 2040**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
February 1, 2039	\$175,000
February 1, 2040 (maturity)	\$200,000

**\$850,000 Term Bonds, due February 1, 2044**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
February 1, 2041	\$200,000
February 1, 2042	\$200,000
February 1, 2043	\$225,000
February 1, 2044 (maturity)	\$225,000

**\$1,025,000 Term Bonds, due February 1, 2048**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
February 1, 2045	\$250,000
February 1, 2046	\$250,000
February 1, 2047	\$250,000
February 1, 2048 (maturity)	\$275,000

**Notice of Redemption; Partial Redemption:**

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral 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.

### **Source of and Security for Payment**

The Bonds are secured by and payable from the levy of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Registrar fees, and Appraisal District fees. The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

### **Defeasance**

The Bond Order 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 tax 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 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 or 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 that would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

### **Funds**

The Bond Order confirms the District's Debt Service Fund, which is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, and any additional bonds payable from taxes which may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

### **Paying Agent/Registrar**

Pursuant to the Bond Order, the initial paying agent and initial registrar with respect to the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District will maintain at least one Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Order to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

## **Registration and Transfer**

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

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

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

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

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

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

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

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

## **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, if required, necessary to provide and rehabilitate improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT--General." The District's voters have authorized the issuance of a total of \$15,000,000 of unlimited tax bonds for the purposes of providing water, sewer, and drainage facilities. The District will have \$5,700,000 unlimited tax bonds for water, sewer, and drainage facilities that will remain authorized, but unissued, after the issuance of the Bonds and may additionally issue unlimited tax refunding bonds to refund its outstanding bonds. Depending upon the District's future issuance of tax-supported debt and the development of the District's tax base, increases in the District's annual ad valorem tax rate may be required to provide for the payment of principal of and interest on the District's current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Order imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ).

## **Amendments to the Bond Order**

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may: (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds; (b) give preference of any Bond over any other Bond; or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

## **BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Securities is to be transferred and how the principal of, premium, if any, Maturity Value and interest on the Securities are to be paid to and credited by DTC while the Securities are registered in its nominee 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, the Financial Advisor, and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.*

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

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Securities. The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Securities, each in the aggregate principal amount or Maturity Value, as the case may be, of such maturity, 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. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Securities 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 securities representing their ownership interests in Securities except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If fewer than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 the District 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Securities 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 detailed information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of Book-Entry-Only-System transfers through DTC (or a successor securities depository). In that event, securities will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's Book-Entry-Only-System has been obtained from sources that the District believes to be reliable; the District, the District's Financial Advisor, and the Underwriter do not take any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

## **TAX MATTERS**

Delivery of the Bonds is subject to an opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of Bonds, pursuant to section 103 of the Internal Revenue Code of 1986 (the "Code"), as amended to the date of issuance of the Bonds, existing regulations, published rulings, and court decisions, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in the alternative minimum taxable income of the owners thereof which are individuals. The statutes, regulations, rulings, and court decisions on which the opinion is based are subject to change.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order 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 Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

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

### **Proposed Tax Legislation**

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

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

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

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



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

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

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

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

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

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, broker, and similar persons or entities acting in the capacity of wholesales or underwriters) at such initial offering price, each of the Bonds of such maturity (the "Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium 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 District 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 designated the Bonds as "qualified tax-exempt obligations" and represents 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.

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriters a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds. Such transcript will include the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of the Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property in the District. The District will also furnish the approving legal opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that: (i) the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against all taxable property within the District; (ii) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and (iii) interest on the Bonds will not be subject to the alternative minimum tax on individuals. Bond Counsel's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

### **Legal Review**

In its capacity as Bond Counsel, Sanford Kuhl Hagan Kugle Parker Kahn LLP has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12," "THE DISTRICT – Authority," "TAXING PROCEDURES," "ANNEXATION AND CONSOLIDATION," "THE BONDS," "TAX MATTERS," and "LEGAL MATTERS - Legal Opinions" (to the extent such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the legal matters and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. 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, other than the matters discussed immediately above.

Sanford Kuhl Hagan Kugle Parker Kahn 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 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 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.

### **No-Litigation Certificate**

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

## **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **OFFICIAL STATEMENT**

#### **Sources of Information**

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

#### **Financial Advisor**

The GMS Group, L.L.C. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, The GMS Group, L.L.C. has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

#### **Consultants**

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

**Engineer** – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and certain engineering matters included in "RISK FACTORS – Hurricane Harvey," "THE DISTRICT – Description," " – Status of Land Development/Land Uses in the District, and " – Current Status of Development" have been provided by IDS Engineering Group, and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

**Tax Assessor/Collector** – The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA" has been provided by HCAD and by Bob Leared Interests, Inc., in reliance upon their authority as experts in the field of tax assessing and appraising.

**Auditor** – The financial statements of the District as of September 30, 2018, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

#### **Continuing Availability of Financial Information**

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audited financial statements are required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, TX, 77056.

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

The Board of Directors of the District, acting in its official capacity and in reliance upon the consultants listed above, and certain certificates of representation to be provided to the Board, 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 the light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation of such matters and makes no representation as to the accuracy or completeness thereof.

### **Updating of Official Statement**

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any 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 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 or 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.

### **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Sagemeadow Utility District as of the date shown on the cover page.

**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

# **Sagemeadow Utility District**

Harris County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2018



# Sagemeadow Utility District

## September 30, 2018

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## Independent Auditor's Report

Board of Directors  
Sagemeadow Utility District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Sagemeadow Utility District (the District), as of and for the year ended September 30, 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 September 30, 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  
February 27, 2019

# **Sagemeadow Utility District**

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

### **September 30, 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.

**Sagemeadow Utility District**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 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.

**Sagemeadow Utility District**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 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**

	<b>2018</b>	<b>2017</b>
Current and other assets	\$ 5,295,575	\$ 5,401,735
Capital assets	<u>6,729,651</u>	<u>6,909,217</u>
Total assets	<u>\$ 12,025,226</u>	<u>\$ 12,310,952</u>
Long-term liabilities	\$ 9,518,071	\$ 9,749,466
Other liabilities	<u>386,471</u>	<u>568,643</u>
Total liabilities	<u>9,904,542</u>	<u>10,318,109</u>
Net position:		
Net investment in capital assets	(934,770)	(879,970)
Restricted	413,484	513,909
Unrestricted	<u>2,641,970</u>	<u>2,358,904</u>
Total net position	<u>\$ 2,120,684</u>	<u>\$ 1,992,843</u>

The total net position of the District increased by \$127,841, or approximately 6 percent. The majority of the increase in net position is related to service revenues, as well as 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**

	<b>2018</b>	<b>2017</b>
Revenues:		
Property taxes	\$ 1,271,256	\$ 1,175,597
Charges for services	2,185,065	2,088,466
Other revenues	<u>179,519</u>	<u>139,518</u>
Total revenues	<u>3,635,840</u>	<u>3,403,581</u>

**Sagemeadow Utility District**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2018**

**Summary of Changes in Net Position (Continued)**

	<b>2018</b>	<b>2017</b>
Expenses:		
Services	\$ 2,972,120	\$ 2,526,252
Depreciation	188,123	199,505
Debt service	347,756	343,398
Total expenses	3,507,999	3,069,155
Change in net position	127,841	334,426
Net position, beginning of year	1,992,843	1,658,417
Net position, end of year	\$ 2,120,684	\$ 1,992,843

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

The District's combined fund balances as of the end of the fiscal year ended September 30, 2018, were \$4,900,693, an increase of \$70,119 from the prior year.

The general fund's fund balance increased by \$281,346 primarily due to property taxes and service revenues exceeding service operations expenditures.

The debt service fund's fund balance decreased by \$141,431 because bond principal and interest requirements and contracted services expenditures exceeded property tax revenues generated.

The capital projects fund's fund balance decreased by \$69,796 primarily due to capital outlay expenditures related to sanitary sewer line replacements.

**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 security fee and investment income revenues and repairs and maintenance and contracted services expenditures being greater than anticipated, as well as solid waste expenditures being less than anticipated. In addition, capital outlay and debt issuance costs expenditures were not budgeted. The fund balance as of September 30, 2018, was expected to be \$2,783,375 and the actual end-of-year fund balance was \$2,612,225.

**Sagemeadow Utility District**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 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 below:

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2018</b>	<b>2017</b>
Land and improvements	\$ 289,657	\$ 289,657
Construction in progress	24,934	16,377
Water facilities	5,974,582	6,133,483
Wastewater facilities	433,005	457,925
Buildings and improvements	7,473	11,775
Total capital assets	\$ 6,729,651	\$ 6,909,217

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

Construction in process related to sanitary sewer line replacement	\$ 24,934
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**Debt**

The changes in the debt position of the District during the fiscal year ended September 30, 2018, are summarized as follows:

Long-term debt payable, beginning of year	\$ 9,749,466
Decreases in long-term debt	(231,395)
Long-term debt payable, end of year	\$ 9,518,071

At September 30, 2018, the District had \$10,200,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "A-." The Series 2013 and 2015 bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

**Sagemeadow Utility District**  
**Management's Discussion and Analysis (Continued)**  
**September 30, 2018**

**Other Relevant Factors**

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective April 4, 2007, the District entered into a Strategic Partnership Agreement with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Strategic Partnership Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years.

**Sagemeadow Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**September 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 184,197	\$ 87,562	\$ 275	\$ 272,034	\$ -	\$ 272,034
Certificates of deposit	2,025,000	-	-	2,025,000	-	2,025,000
Short-term investments	393,146	278,056	1,964,018	2,635,220	-	2,635,220
Receivables:						
Property taxes	29,745	15,620	-	45,365	-	45,365
Service accounts	264,535	-	-	264,535	-	264,535
Accrued penalty and interest	-	-	-	-	17,348	17,348
Accrued interest	13,389	-	-	13,389	-	13,389
Due from others	22,364	-	-	22,364	-	22,364
Interfund receivable	33,456	-	-	33,456	(33,456)	-
Prepaid expenditures	320	-	-	320	-	320
Capital assets (net of accumulated depreciation):						
Land and improvements	-	-	-	-	289,657	289,657
Construction in progress	-	-	-	-	24,934	24,934
Infrastructure	-	-	-	-	6,415,060	6,415,060
<b>Total assets</b>	<b>\$ 2,966,152</b>	<b>\$ 381,238</b>	<b>\$ 1,964,293</b>	<b>\$ 5,311,683</b>	<b>\$ 6,713,543</b>	<b>\$ 12,025,226</b>



**Sagemeadow Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**September 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 172,414	\$ 2,900	\$ 5,087	\$ 180,401	\$ -	\$ 180,401
Accrued interest payable	-	-	-	-	54,302	54,302
Customer deposits	151,768	-	-	151,768	-	151,768
Interfund payable	-	33,456	-	33,456	(33,456)	-
Long-term liabilities:						
Due within one year	-	-	-	-	250,000	250,000
Due after one year	-	-	-	-	9,268,071	9,268,071
<b>Total liabilities</b>	<b>324,182</b>	<b>36,356</b>	<b>5,087</b>	<b>365,625</b>	<b>9,538,917</b>	<b>9,904,542</b>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	29,745	15,620	0	45,365	(45,365)	0
<b>Fund Balances/Net Position</b>						
Fund balances:						
Nonspendable, prepaid expenditures	320	-	-	320	(320)	-
Restricted for:						
Unlimited tax bonds	-	329,262	-	329,262	(329,262)	-
Water, sewer and drainage	-	-	1,959,206	1,959,206	(1,959,206)	-
Unassigned	2,611,905	-	-	2,611,905	(2,611,905)	-
<b>Total fund balances</b>	<b>2,612,225</b>	<b>329,262</b>	<b>1,959,206</b>	<b>4,900,693</b>	<b>(4,900,693)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,966,152</b>	<b>\$ 381,238</b>	<b>\$ 1,964,293</b>	<b>\$ 5,311,683</b>		
Net position:						
Net investment in capital assets					(934,770)	(934,770)
Restricted for debt service					307,928	307,928
Restricted for capital projects					105,556	105,556
Unrestricted					2,641,970	2,641,970
<b>Total net position</b>					<b>\$ 2,120,684</b>	<b>\$ 2,120,684</b>

**Sagemeadow Utility District**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended September 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 817,619	\$ 451,192	\$ -	\$ 1,268,811	\$ 2,445	\$ 1,271,256
Water service	1,058,003	-	-	1,058,003	-	1,058,003
Sewer service	857,781	-	-	857,781	-	857,781
Security fee	269,281	-	-	269,281	-	269,281
Penalty and interest	62,065	26,393	-	88,458	1,658	90,116
Tap connection and inspection fees	11,824	-	-	11,824	-	11,824
Investment income	33,919	6,823	36,837	77,579	-	77,579
	<u>3,110,492</u>	<u>484,408</u>	<u>36,837</u>	<u>3,631,737</u>	<u>4,103</u>	<u>3,635,840</u>
Total revenues						
<b>Expenditures/Expenses</b>						
Service operations:						
Purchased services	775,393	-	-	775,393	-	775,393
Professional fees	131,660	6,698	-	138,358	-	138,358
Contracted services	774,013	41,598	-	815,611	238	815,849
Solid waste	346,641	-	-	346,641	-	346,641
Utilities	32,407	-	-	32,407	-	32,407
Repairs and maintenance	588,149	-	-	588,149	163,499	751,648
Other expenditures	101,958	9,862	4	111,824	-	111,824
Capital outlay	65,665	-	106,629	172,294	(172,294)	-
Depreciation	-	-	-	-	188,123	188,123
Debt service:						
Principal retirement	-	235,000	-	235,000	(235,000)	-
Interest and fees	-	332,681	-	332,681	1,815	334,496
Debt issuance costs	13,260	-	-	13,260	-	13,260
	<u>2,829,146</u>	<u>625,839</u>	<u>106,633</u>	<u>3,561,618</u>	<u>(53,619)</u>	<u>3,507,999</u>
Total expenditures/expenses						
<b>Excess (Deficiency) of Revenues</b>						
<b>Over Expenditures</b>	281,346	(141,431)	(69,796)	70,119	(70,119)	
<b>Change in Net Position</b>						
					127,841	127,841
<b>Fund Balances/Net Position</b>						
Beginning of year	2,330,879	470,693	2,029,002	4,830,574	-	1,992,843
End of year	<u>\$ 2,612,225</u>	<u>\$ 329,262</u>	<u>\$ 1,959,206</u>	<u>\$ 4,900,693</u>	<u>\$ 0</u>	<u>\$ 2,120,684</u>

# **Sagemeadow Utility District**

## **Notes to Financial Statements**

### **September 30, 2018**

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

Sagemeadow Utility District (the District) was created by an order of the 62<sup>nd</sup> Legislature of Texas, Regular Session, 1971, and operates under the provisions of the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the 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.

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.

# Sagemeadow Utility District

## Notes to Financial Statements

### September 30, 2018

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.

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.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

***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.

***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.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

***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 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.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

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 September 30, 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 September 30, 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:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Buildings and improvements	40

**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.

**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.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

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.	\$ 6,729,651
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	45,365
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	17,348
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(54,302)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	(9,518,071)
Adjustment to fund balances to arrive at net position.	\$ (2,780,009)

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 of the following items.



**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

Change in fund balances.	\$	70,119
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 and noncapitalized costs in the current period.		(179,566)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.		235,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.		4,103
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.		<u>(1,815)</u>
Change in net position of governmental activities.	\$	<u>127,841</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.

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 September 30, 2018, none of the District's bank balances were exposed to custodial credit risk.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

**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 Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At September 30, 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
Texas CLASS	\$ 2,635,220	\$ 2,635,220	\$ 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.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2018, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet at September 30, 2018, as follows:

Carrying value:		
Deposits	\$	2,297,034
Investments		<u>2,635,220</u>
Total	\$	<u><u>4,932,254</u></u>

Included in the following statement of net position captions:

Cash	\$	272,034
Certificates of deposit		2,025,000
Short-term investments		<u>2,635,220</u>
Total	\$	<u><u>4,932,254</u></u>

**Investment Income**

Investment income of \$77,579 for the year ended September 30, 2018, consisted of interest income.

**Fair Value Measurements**

The District has the following recurring fair value measurements as of September 30, 2018:

- Pooled investments of \$2,635,220 are valued at fair value per share of the pool's underlying portfolio.

**Note 3: Capital Assets**

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

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:				
Land and improvements	\$ 289,657	\$ -	\$ -	\$ 289,657
Construction in progress	<u>16,377</u>	<u>24,934</u>	<u>(16,377)</u>	<u>24,934</u>
Total capital assets, non-depreciable	<u>306,034</u>	<u>24,934</u>	<u>(16,377)</u>	<u>314,591</u>

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

<b>Governmental Activities (Continued)</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balances, End of Year</b>
Capital assets, depreciable:				
Water production and distribution facilities	\$ 7,517,990	\$ -	\$ -	\$ 7,517,990
Wastewater collection and treatment facilities	1,553,165	-	-	1,553,165
Buildings and improvements	163,285	-	-	163,285
Total capital assets, depreciable	<u>9,234,440</u>	<u>0</u>	<u>0</u>	<u>9,234,440</u>
Less accumulated depreciation:				
Water production and distribution facilities	(1,384,507)	(158,901)	-	(1,543,408)
Wastewater collection and treatment facilities	(1,095,240)	(24,920)	-	(1,120,160)
Buildings and improvements	(151,510)	(4,302)	-	(155,812)
Total accumulated depreciation	<u>(2,631,257)</u>	<u>(188,123)</u>	<u>0</u>	<u>(2,819,380)</u>
Total governmental activities, net	<u>\$ 6,909,217</u>	<u>\$ (163,189)</u>	<u>\$ (16,377)</u>	<u>\$ 6,729,651</u>

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended September 30, 2018, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:				
General obligation bonds	\$ 9,880,000	\$ 235,000	\$ 9,645,000	\$ 250,000
Less discounts on bonds	130,534	3,605	126,929	-
Total governmental activities long-term liabilities	<u>\$ 9,749,466</u>	<u>\$ 231,395</u>	<u>\$ 9,518,071</u>	<u>\$ 250,000</u>

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

**General Obligation Bonds**

	<b>Series 2013</b>	<b>Series 2015</b>
Amounts outstanding, September 30, 2018	\$4,945,000	\$4,700,000
Interest rates	2.00% to 3.75%	3.00% to 5.00%
Maturity dates, serially beginning/ending	February 1, 2019/2039	February 1, 2019/2043
Interest payment dates	February 1/ August 1	February 1/ August 1
Callable dates*	February 1, 2019	February 1, 2021

\*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 September 30, 2018.

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 250,000	\$ 321,813	\$ 571,813
2020	250,000	313,813	563,813
2021	275,000	305,188	580,188
2022	300,000	296,806	596,806
2023	300,000	289,119	589,119
2024-2028	1,750,000	1,297,686	3,047,686
2029-2033	2,125,000	1,004,873	3,129,873
2034-2038	2,660,000	602,844	3,262,844
2039-2043	1,735,000	150,250	1,885,250
Total	<u>\$ 9,645,000</u>	<u>\$ 4,582,392</u>	<u>\$ 14,227,392</u>

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, and are further payable from and secured by a lien on and a pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

**Sagemeadow Utility District**  
**Notes to Financial Statements**  
**September 30, 2018**

Bonds voted	\$ 27,050,000
Bonds sold	16,850,000

**Note 5: Significant Bond Resolutions 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 September 30, 2018, the District levied an ad valorem debt service tax at the rate of \$0.1600 per \$100 of assessed valuation, which resulted in a tax levy of \$451,010 on the taxable valuation of \$281,881,057 for the 2017 tax year. The interest and principal requirements paid from the tax revenues were \$566,182.

**Note 6: Maintenance and Contract Taxes**

At an election held August 13, 1983, voters authorized a maintenance tax not to exceed \$0.20 per \$100 valuation on all property within the District subject to taxation, and at an election held May 11, 2013, voters authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2018, the District levied an ad valorem maintenance tax at the rate of \$0.1800 per \$100 of assessed valuation, which resulted in a tax levy of \$507,386 on the taxable valuation of \$281,881,057 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

At an election held on November 25, 1997, voters authorized the District to levy a contract tax for firefighting purposes. During the year ended September 30, 2018, the District levied an ad valorem contract tax at the rate of \$0.1100 per \$100 of assessed valuation, which resulted in a tax levy of \$310,069 the taxable valuation of \$281,881,057 for the 2017 tax year. The contract tax is being used to finance the District's obligations arising from its contract with the volunteer fire department.

**Note 7: Waste Disposal Contract**

The District has a waste disposal contract with the City of Houston (the City), which is automatically renewed unless either party gives two years' written notice of termination. The District incurred costs of \$236,080 for the year ended September 30, 2018, related to the contract.

**Note 8: Surface Water Supply Contract**

On December 3, 1990, the District and Kirkmont Municipal Utility District (Kirkmont) entered into an agreement to form the Regional Water Advisory Committee. Under the terms of the agreement, the districts share the costs of the purchased treated surface water from the City and have constructed

# **Sagemeadow Utility District**

## **Notes to Financial Statements**

### **September 30, 2018**

connection facilities which permit the conveyance of surface water to the water supply systems of the districts. Construction costs of the connection facilities have been shared equally between the District and Kirkmont. The Regional Water Advisory Committee is composed of members from the Boards of both the District and Kirkmont.

During the current year, the District incurred costs of \$590,921 for purchased water from the City. In addition, the District received \$51,608 from Kirkmont for its share of current year costs.

#### **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 for which the District participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

#### **Note 10: Strategic Partnership Agreement**

Effective April 4, 2007, the District and the City entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years.

## **Required Supplementary Information**



**Sagemeadow Utility District**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended September 30, 2018**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 814,555	\$ 817,619	\$ 3,064
Water service	1,064,500	1,058,003	(6,497)
Sewer service	870,000	857,781	(12,219)
Security fee	185,000	269,281	84,281
Penalty and interest	69,550	62,065	(7,485)
Tap connection and inspection fees	11,000	11,824	824
Investment income	11,000	33,919	22,919
	<u>3,025,605</u>	<u>3,110,492</u>	<u>84,887</u>
<b>Expenditures</b>			
Service operations:			
Purchased services	793,000	775,393	17,607
Professional fees	129,000	131,660	(2,660)
Contracted services	740,184	774,013	(33,829)
Solid waste	373,000	346,641	26,359
Utilities	35,000	32,407	2,593
Repairs and maintenance	388,580	588,149	(199,569)
Other expenditures	114,345	101,958	12,387
Capital outlay	-	65,665	(65,665)
Debt issuance costs	-	13,260	(13,260)
	<u>2,573,109</u>	<u>2,829,146</u>	<u>(256,037)</u>
<b>Excess of Revenues Over Expenditures</b>	452,496	281,346	(171,150)
<b>Fund Balance, Beginning of Year</b>	<u>2,330,879</u>	<u>2,330,879</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 2,783,375</u>	<u>\$ 2,612,225</u>	<u>\$ (171,150)</u>

**Sagemeadow Utility District**  
**Notes to Required Supplementary Information**  
**September 30, 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**

**Sagemeadow Utility District**  
**Other Schedules Included Within This Report**  
**September 30, 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 12-24
- [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

# Sagemeadow Utility District

## Schedule of Services and Rates

### Year Ended September 30, 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 type="checkbox"/> Parks/Recreation	<input checked="" type="checkbox"/> Fire Protection	<input checked="" type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" 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):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 26.37	3,000	N	\$ 4.26	3,001 to 8,000
				\$ 5.10	8,001 to 12,000
				\$ 5.28	12,001 to No Limit
Wastewater:	\$ 29.88	4,000	N	\$ 1.57	4,001 to No Limit
Regional water fee:	\$ 0.00				

Does the District employ winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage (including fees): Water \$ 57.87 Wastewater \$ 39.30

b. Water and wastewater retail connections:

<b>Meter Size</b>	<b>Total Connections</b>	<b>Active Connections</b>	<b>ESFC Factor</b>	<b>Active ESFC*</b>
Unmetered	-	-	x1.0	-
≤ 3/4"	2,140	2,115	x1.0	2,115
1"	15	15	x2.5	38
1 1/2"	20	20	x5.0	100
2"	18	18	x8.0	144
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	2,193	2,168		2,397
Total wastewater	2,154	2,129	x1.0	2,129

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

Gallons pumped into the system:	164,901
Gallons billed to customers:	157,650
Water accountability ratio (gallons billed/gallons pumped):	95.60%

\*"ESFC" means equivalent single-family connections

**Sagemeadow Utility District**  
**Schedule of General Fund Expenditures**  
**Year Ended September 30, 2018**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	18,000	
Legal		89,450	
Engineering		23,260	
Financial advisor		950	
		<u>          </u>	131,660
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			775,393
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping		24,758	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		261,973	
Other contracted services		208,217	
		<u>          </u>	494,948
<b>Utilities</b>			32,407
<b>Repairs and Maintenance</b>			588,149
<b>Administrative Expenditures</b>			
Directors' fees		19,350	
Office supplies		19,203	
Insurance		16,988	
Other administrative expenditures		46,417	
		<u>          </u>	101,958
<b>Capital Outlay</b>			
Capitalized assets		-	
Expenditures not capitalized		65,665	
		<u>          </u>	65,665
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			346,641
<b>Fire Fighting</b>			279,065
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			13,260
			<u>          </u>
Total expenditures			<u><u>\$ 2,829,146</u></u>

**Sagemeadow Utility District**  
**Schedule of Temporary Investments**  
**September 30, 2018**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificates of Deposit				
No. 100142258	1.10%	12/11/18	\$ 100,000	\$ 886
No. 6758907781	2.15%	05/24/19	200,000	1,520
No. 9009010155	1.35%	04/05/19	125,000	818
No. 485730	1.25%	02/08/19	200,000	1,596
No. 313049	1.35%	03/01/19	200,000	1,568
No. 4189609	1.20%	10/10/18	200,000	2,328
No. 0137246348	2.28%	07/11/19	200,000	1,012
No. 16354	2.00%	06/12/19	200,000	1,205
No. 3116003005	2.40%	09/12/19	200,000	237
No. 6000026317	2.10%	05/15/19	200,000	1,588
No. 6069	2.45%	08/14/19	200,000	631
Texas CLASS	2.29%	Demand	<u>393,146</u>	<u>-</u>
			<u>2,418,146</u>	<u>13,389</u>
<b>Debt Service Fund</b>				
Texas CLASS	2.29%	Demand	<u>278,056</u>	<u>0</u>
<b>Capital Projects Fund</b>				
Texas CLASS	2.29%	Demand	184,027	-
Texas CLASS	2.29%	Demand	<u>1,779,991</u>	<u>-</u>
			<u>1,964,018</u>	<u>0</u>
Totals			<u>\$ 4,660,220</u>	<u>\$ 13,389</u>

**Sagemeadow Utility District**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended September 30, 2018**

	<b>Maintenance Taxes</b>	<b>Contract Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 18,109	\$ 9,916	\$ 14,895
Additions and corrections to prior years' taxes	1,329	555	907
Adjusted receivable, beginning of year	<u>19,438</u>	<u>10,471</u>	<u>15,802</u>
<b>2017 Original Tax Levy</b>	474,999	290,277	422,222
Additions and corrections	32,387	19,792	28,788
Adjusted tax levy	<u>507,386</u>	<u>310,069</u>	<u>451,010</u>
Total to be accounted for	526,824	320,540	466,812
Tax collections: Current year	(498,260)	(304,492)	(442,898)
Prior years	(9,580)	(5,287)	(8,294)
Receivable, end of year	<u>\$ 18,984</u>	<u>\$ 10,761</u>	<u>\$ 15,620</u>
<b>Receivable, by Years</b>			
2017	\$ 9,126	\$ 5,577	\$ 8,112
2016	3,182	1,944	3,005
2015	2,865	1,433	2,214
2014	1,122	537	879
2013	419	200	328
2012	281	155	253
2011	307	169	121
2010	53	27	21
2009	573	308	243
2008	317	136	125
2007	318	136	125
2006	313	103	141
2005	36	12	17
2004	36	12	18
2003	36	12	18
Receivable, end of year	<u>\$ 18,984</u>	<u>\$ 10,761</u>	<u>\$ 15,620</u>



**Sagemeadow Utility District**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended September 30, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Property Valuations</b>				
Land	\$ 75,464,854	\$ 73,205,483	\$ 54,730,404	\$ 52,765,861
Improvements	304,213,993	271,293,228	267,740,980	235,143,437
Personal property	4,884,231	5,205,939	5,428,732	4,693,277
Exemptions	<u>(102,682,021)</u>	<u>(92,572,125)</u>	<u>(85,861,152)</u>	<u>(72,873,548)</u>
Total property valuations	<u>\$ 281,881,057</u>	<u>\$ 257,132,525</u>	<u>\$ 242,038,964</u>	<u>\$ 219,729,027</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.1600	\$ 0.1700	\$ 0.1700	\$ 0.1800
Contract tax rates	0.1100	0.1100	0.1100	0.1100
Maintenance tax rates*	<u>0.1800</u>	<u>0.1800</u>	<u>0.2200</u>	<u>0.2300</u>
Total tax rates per \$100 valuation	<u>\$ 0.4500</u>	<u>\$ 0.4600</u>	<u>\$ 0.5000</u>	<u>\$ 0.5200</u>
<b>Tax Levy</b>	<u>\$ 1,268,465</u>	<u>\$ 1,182,809</u>	<u>\$ 1,210,199</u>	<u>\$ 1,142,591</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>98%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$0.50 on May 11, 2013

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

**Sagemeadow Utility District**  
**Schedule of Long-term Debt Service Requirements by Years**  
**September 30, 2018**

Due During Fiscal Years Ending September 30	Series 2013		
	Principal Due February 1	Interest Due February 1, August 1	Total
2019	\$ 150,000	\$ 151,938	\$ 301,938
2020	150,000	148,938	298,938
2021	150,000	145,938	295,938
2022	175,000	142,556	317,556
2023	175,000	138,619	313,619
2024	175,000	133,938	308,938
2025	200,000	128,312	328,312
2026	200,000	122,312	322,312
2027	200,000	116,312	316,312
2028	225,000	109,937	334,937
2029	225,000	103,187	328,187
2030	225,000	96,437	321,437
2031	250,000	89,312	339,312
2032	250,000	81,812	331,812
2033	275,000	73,937	348,937
2034	275,000	65,000	340,000
2035	300,000	54,937	354,937
2036	300,000	44,438	344,438
2037	325,000	33,094	358,094
2038	360,000	20,250	380,250
2039	360,000	6,750	366,750
Totals	<u>\$ 4,945,000</u>	<u>\$ 2,007,954</u>	<u>\$ 6,952,954</u>

**Sagemeadow Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2018**

Due During Fiscal Years Ending September 30	Series 2015		
	Principal Due February 1	Interest Due February 1, August 1	Total
2019	\$ 100,000	\$ 169,875	\$ 269,875
2020	100,000	164,875	264,875
2021	125,000	159,250	284,250
2022	125,000	154,250	279,250
2023	125,000	150,500	275,500
2024	150,000	146,375	296,375
2025	150,000	141,875	291,875
2026	150,000	137,375	287,375
2027	150,000	132,875	282,875
2028	150,000	128,375	278,375
2029	175,000	123,500	298,500
2030	175,000	118,031	293,031
2031	175,000	112,344	287,344
2032	175,000	106,438	281,438
2033	200,000	99,875	299,875
2034	200,000	92,750	292,750
2035	200,000	85,500	285,500
2036	225,000	77,656	302,656
2037	225,000	69,219	294,219
2038	250,000	60,000	310,000
2039	250,000	50,000	300,000
2040	250,000	40,000	290,000
2041	275,000	29,500	304,500
2042	300,000	18,000	318,000
2043	300,000	6,000	306,000
Totals	<u>\$ 4,700,000</u>	<u>\$ 2,574,438</u>	<u>\$ 7,274,438</u>

**Sagemeadow Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**September 30, 2018**

<b>Due During Fiscal Years Ending September 30</b>	<b>Annual Requirements For All Series</b>		
	<b>Total Principal Due</b>	<b>Total Interest Due</b>	<b>Total Principal and Interest Due</b>
2019	\$ 250,000	\$ 321,813	\$ 571,813
2020	250,000	313,813	563,813
2021	275,000	305,188	580,188
2022	300,000	296,806	596,806
2023	300,000	289,119	589,119
2024	325,000	280,313	605,313
2025	350,000	270,187	620,187
2026	350,000	259,687	609,687
2027	350,000	249,187	599,187
2028	375,000	238,312	613,312
2029	400,000	226,687	626,687
2030	400,000	214,468	614,468
2031	425,000	201,656	626,656
2032	425,000	188,250	613,250
2033	475,000	173,812	648,812
2034	475,000	157,750	632,750
2035	500,000	140,437	640,437
2036	525,000	122,094	647,094
2037	550,000	102,313	652,313
2038	610,000	80,250	690,250
2039	610,000	56,750	666,750
2040	250,000	40,000	290,000
2041	275,000	29,500	304,500
2042	300,000	18,000	318,000
2043	300,000	6,000	306,000
Totals	<u>\$ 9,645,000</u>	<u>\$ 4,582,392</u>	<u>\$ 14,227,392</u>

**Sagemeadow Utility District**  
**Changes in Long-term Bonded Debt**  
**Year Ended September 30, 2018**

	<b>Bond Issues</b>			
	<b>Series 1999</b>	<b>Series 2013</b>	<b>Series 2015</b>	<b>Totals</b>
Interest rates	4.25% to 6.25%	2.00% to 3.75%	3.00% to 5.00%	
Dates interest payable	February 1/ August 1	February 1/ August 1	February 1/ August 1	
Maturity dates		February 1, 2019/2039	February 1, 2019/2043	
Bonds outstanding, beginning of	\$ 135,000	\$ 4,945,000	\$ 4,800,000	\$ 9,880,000
Retirements, principal	<u>135,000</u>	<u>-</u>	<u>100,000</u>	<u>235,000</u>
Bonds outstanding, end of current year	<u>\$ 0</u>	<u>\$ 4,945,000</u>	<u>\$ 4,700,000</u>	<u>\$ 9,645,000</u>
Interest paid during current year	<u>\$ 2,869</u>	<u>\$ 153,438</u>	<u>\$ 174,875</u>	<u>\$ 331,182</u>

Paying agent's name and address:

- Series 1999** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas  
**Series 2013** - Amegy Bank N.A., Houston, Texas  
**Series 2015** - Amegy Bank N.A., Houston, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	<u>\$ 27,050,000</u>	<u>0</u>	<u>0</u>
Amount issued	<u>\$ 16,850,000</u>	<u>0</u>	<u>0</u>
Remaining to be issued	<u>\$ 10,200,000</u>	<u>0</u>	<u>0</u>

Debt service fund cash and temporary investment balances as of September 30, 2018: \$ 365,618

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 569,096

**Sagemeadow Utility District**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended September 30,**

	Amounts				
	2018	2017	2016	2015	2014
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 817,619	\$ 736,956	\$ 800,050	\$ 747,879	\$ 686,805
Water service	1,058,003	1,029,711	987,472	902,960	901,577
Sewer service	857,781	855,808	816,244	740,346	714,031
Maintenance fee	-	-	-	246,788	265,638
Security fee	269,281	202,947	182,032	15,278	-
Penalty and interest	62,065	66,452	75,869	63,982	48,050
Tap connection and inspection fees	11,824	9,572	7,750	10,154	35,783
Investment income	33,919	15,736	7,087	3,646	3,128
Other income	-	-	-	-	105,177
Total revenues	<u>3,110,492</u>	<u>2,917,182</u>	<u>2,876,504</u>	<u>2,731,033</u>	<u>2,760,189</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	775,393	775,556	790,629	773,235	849,256
Professional fees	131,660	116,494	113,103	111,563	105,217
Contracted services	774,013	703,259	647,817	610,011	574,931
Solid waste	346,641	369,793	370,556	352,306	341,011
Utilities	32,407	33,711	39,944	42,402	45,037
Repairs and maintenance	588,149	373,040	431,460	391,935	500,478
Other expenditures	101,958	102,455	98,978	116,706	123,997
Tap connections	-	-	-	1,000	10,567
Capital outlay	65,665	-	-	18,724	42,162
Debt issuance costs	13,260	-	-	-	-
Total expenditures	<u>2,829,146</u>	<u>2,474,308</u>	<u>2,492,487</u>	<u>2,417,882</u>	<u>2,592,656</u>
<b>Excess of Revenues Over Expenditures</b>	281,346	442,874	384,017	313,151	167,533
<b>Other Financing Sources</b>					
Interfund transfers in	-	-	-	-	5,917
<b>Excess of Revenues and Transfers In Over Expenditures and Transfers Out</b>	281,346	442,874	384,017	313,151	173,450
<b>Fund Balance, Beginning of Year</b>	<u>2,330,879</u>	<u>1,888,005</u>	<u>1,503,988</u>	<u>1,190,837</u>	<u>1,017,387</u>
<b>Fund Balance, End of Year</b>	<u>\$ 2,612,225</u>	<u>\$ 2,330,879</u>	<u>\$ 1,888,005</u>	<u>\$ 1,503,988</u>	<u>\$ 1,190,837</u>
<b>Total Active Retail Water Connections</b>	<u>2,168</u>	<u>2,165</u>	<u>2,166</u>	<u>2,169</u>	<u>2,160</u>
<b>Total Active Retail Wastewater Connections</b>	<u>2,129</u>	<u>2,123</u>	<u>2,125</u>	<u>2,128</u>	<u>2,122</u>

**Percent of Fund Total Revenues**

<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
26.3 %	25.3 %	27.8 %	27.4 %	24.9 %
34.0	35.3	34.3	33.1	32.7
27.6	29.4	28.4	27.1	25.9
-	-	-	9.0	9.6
8.6	6.9	6.3	0.6	-
2.0	2.3	2.6	2.3	1.7
0.4	0.3	0.3	0.4	1.3
1.1	0.5	0.3	0.1	0.1
-	-	-	-	3.8
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
24.9	26.6	27.5	28.3	30.8
4.2	4.0	3.9	4.1	3.8
24.9	24.1	22.5	22.3	20.8
11.2	12.7	12.9	12.9	12.4
1.0	1.1	1.4	1.6	1.6
18.9	12.8	15.0	14.3	18.1
3.3	3.5	3.4	4.3	4.5
-	-	-	0.0	0.4
2.1	-	-	0.7	1.5
0.4	-	-	-	-
<u>90.9</u>	<u>84.8</u>	<u>86.6</u>	<u>88.5</u>	<u>93.9</u>
<u>9.1 %</u>	<u>15.2 %</u>	<u>13.4 %</u>	<u>11.5 %</u>	<u>6.1 %</u>

**Sagemeadow Utility District**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended September 30,**

	Amounts				
	2018	2017	2016	2015	2014
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 451,192	\$ 431,615	\$ 411,835	\$ 395,782	\$ 362,690
Penalty and interest	26,393	15,568	24,930	20,922	17,056
Investment income	6,823	4,452	2,914	1,705	1,078
Total revenues	<u>484,408</u>	<u>451,635</u>	<u>439,679</u>	<u>418,409</u>	<u>380,824</u>
<b>Expenditures</b>					
Current:					
Professional fees	6,698	4,648	6,802	5,583	4,973
Contracted services	41,598	40,939	41,992	41,543	40,293
Other expenditures	9,862	5,952	9,434	5,640	5,608
Debt service:					
Principal retirement	235,000	130,000	125,000	115,000	110,000
Interest and fees	332,681	340,840	344,196	173,884	178,400
Total expenditures	<u>625,839</u>	<u>522,379</u>	<u>527,424</u>	<u>341,650</u>	<u>339,274</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(141,431)	(70,744)	(87,745)	76,759	41,550
<b>Other Financing Sources</b>					
General obligation bonds issued	-	-	-	88,687	-
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(141,431)	(70,744)	(87,745)	165,446	41,550
<b>Fund Balance, Beginning of Year</b>	<u>470,693</u>	<u>541,437</u>	<u>629,182</u>	<u>463,736</u>	<u>422,186</u>
<b>Fund Balance, End of Year</b>	<u>\$ 329,262</u>	<u>\$ 470,693</u>	<u>\$ 541,437</u>	<u>\$ 629,182</u>	<u>\$ 463,736</u>



**Percent of Fund Total Revenues**

<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
93.1 %	95.6 %	93.7 %	94.6 %	95.2 %
5.5	3.4	5.7	5.0	4.5
<u>1.4</u>	<u>1.0</u>	<u>0.6</u>	<u>0.4</u>	<u>0.3</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1.4	1.0	1.5	1.3	1.3
8.6	9.1	9.6	9.9	10.6
2.0	1.3	2.2	1.4	1.5
48.5	28.8	28.4	27.5	28.9
<u>68.7</u>	<u>75.5</u>	<u>78.3</u>	<u>41.6</u>	<u>46.8</u>
<u>129.2</u>	<u>115.7</u>	<u>120.0</u>	<u>81.7</u>	<u>89.1</u>
<u><u>(29.2) %</u></u>	<u><u>(15.7) %</u></u>	<u><u>(20.0) %</u></u>	<u><u>18.3 %</u></u>	<u><u>10.9 %</u></u>

**Sagemeadow Utility District**  
**Board Members, Key Personnel and Consultants**  
**Year Ended September 30, 2018**

Complete District mailing address:	Sagemeadow Utility District 10755 Hall Road Houston, Texas 77089
District business telephone number:	281.481.4182
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 14, 2018
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Timothy A. Beyer	Elected 05/18- 05/22	\$ 3,900	\$ 0	President
Glenn D. Williams	Elected 05/16- 05/20	3,750	0	Vice President
David C. Montgomery	Elected 05/16- 05/20	3,900	0	Secretary/ Treasurer
John E. Elam	Elected 05/18- 05/22	4,200	0	Assistant Vice President
C. Ted Heinrich	Elected 05/18- 05/22	3,600	0	Assistant Secretary/ Treasurer

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

**Sagemeadow Utility District**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended September 30, 2018**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
BKD, LLP	07/10/85	\$ 18,000	Auditor
The GMS Group, L.L.C.	06/14/99	950	Financial Advisor
Harris County Appraisal District	Legislative Action	9,402	Appraiser
IDS Engineering Group	09/18/03	86,860	Engineer
Bob Leared Interests	08/08/74	41,928	Tax Assessor/ Collector
Municipal Accounts & Consulting, L.P.	04/13/05	27,857	Bookkeeper
Municipal District Services, L.L.C.	05/14/08	845,636	Operator
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/10/99	6,698	Delinquent Tax Attorney
Sanford Kuhl Hagan Kugle Parker Kahn LLP	07/31/89	94,594	General Counsel
<b>Investment Officers</b>			
Mark M. Burton and Ghia Lewis	02/08/06	N/A	Bookkeepers

**APPENDIX B**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN