

**OFFICIAL STATEMENT DATED JUNE 20, 2019**

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE LEGAL, VALID, AND BINDING OBLIGATIONS OF THE DISTRICT AND IN THE OPINION OF ORRICK, HERRINGTON & SUTCLIFFE, LLP, SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. SPECIAL TAX COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE “TAX MATTERS” HEREIN.

THE BONDS HAVE BEEN DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—NOT QUALIFIED TAX-EXEMPT OBLIGATIONS.”

**NEW ISSUE-Book-Entry Only**

**\$7,470,000**

Insured Rating (AGM): S&P “AA” (stable outlook)  
 Underlying Rating: S&P “A+”  
 See “MUNICIPAL BOND RATING” and  
 “MUNICIPAL BOND INSURANCE” herein.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
*(A political subdivision of the State of Texas located within Harris County)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2019**

**Dated: July 1, 2019**

**Due: September 1, as shown below**

Principal of the bonds described above (the “Bonds”) is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds accrues from July 1, 2019, and is payable on March 1 and September 1 of each year commencing March 1, 2020, until the earlier of maturity or redemption and calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial Owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such Beneficial Owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”



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 ASSURED GUARANTY MUNICIPAL CORP. See “MUNICIPAL BOND INSURANCE” herein.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INTIAL REOFFERING YIELDS**

Due (Sept 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (Sept 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$ 85,000	2.000 %	1.77 %	41419X HJ8	2025	\$ 1,390,000 (c)	2.000 %	2.03 %	41419X HP4
2021	85,000	2.000	1.80	41419X HK5	2026	1,280,000 (c)	2.000	2.16	41419X HQ2
2022	755,000	2.000	1.85	41419X HL3	2027	835,000 (c)	2.000	2.27	41419X HR0
2023	1,315,000	2.000	1.90	41419X HM1	2028	395,000 (c)	2.000	2.40	41419X HS8
2024	1,330,000	2.000	1.95	41419X HN9					

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from July 1, 2019, is to be added to the price.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of Harris County Municipal Utility District No. 364 (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 located within the District. 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. The Bonds are subject to special investment considerations described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Radcliffe Bobbitt Adams Polley PLLC, Bond Counsel and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Special Tax Counsel. Certain other legal matters will be passed upon, on behalf of the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds in book entry form through the facilities of the DTC is expected on or about July 23, 2019.

**SAMCO Capital**

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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 representation must not be relied upon as having been authorized by the District.

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019 upon payment of the costs of duplication therefor.

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

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

## OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement.

### THE FINANCING

- The Issuer* ..... Harris County Municipal Utility District No. 364 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
- The Issue*..... \$7,470,000 Harris County Municipal Utility District No. 364 Unlimited Tax Refunding Bonds, Series 2019, initially dated July 1, 2019. The Bonds mature serially on September 1 in each of the years 2020 through 2028, inclusive, in the respective principal amounts shown on the cover hereof. Interest on the Bonds accrues at the respective rates shown on the cover hereof from July 1, 2019, and is payable on March 1, 2020, and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
- The Bonds maturing on and after September 1, 2025, are subject to redemption prior to maturity from time to time at the option of the District, in whole or in part on September 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- Book-Entry-Only* ..... The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”
- Source of Payment* ..... The Bonds are payable from continuing direct annual ad valorem tax levied upon all taxable property within the District, which, under Texas law, is not limited as to rate or amount. See “TAX PROCEDURES.” 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.”
- Tax Matters* ..... In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.
- Use of Proceeds* ..... Proceeds from the sale of the Bonds, together with available debt service funds, will be used to currently refund and defease \$7,155,000 of the District’s Outstanding Bonds (defined below) in order to achieve annual and net present value savings in the District’s annual debt service expense. The Bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” Bond proceeds will also be used to pay certain costs associated with issuance of the Bonds, including the payment of any insurance premium. After issuance of the Bonds, \$3,965,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds,” “—Sources and Uses of Funds,” and “FINANCIAL STATEMENT—Outstanding Bonds.”
- Payment Record* ..... The District has previously issued \$25,740,000 principal amount of unlimited tax bonds and \$15,410,000 principal amount of unlimited tax refunding bonds, of which a principal amount of \$11,120,000 is outstanding as of May 1, 2019 (the “Outstanding Bonds”). The District has never defaulted on the payment of principal or interest on the Outstanding Bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”

<i>Qualified Tax-Exempt Obligations</i> .....	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Municipal Bond Rating and Municipal Bond Insurance</i> .....	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a 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 Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of the ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Bond Counsel</i> .....	Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Special Tax Counsel</i> .....	Orrick, Herrington & Sutcliffe LLP, Houston, Texas. See “TAX MATTERS.”
<i>Underwriter’s Counsel</i> .....	McCall, Parkhurst & Horton L.L.P, Houston, Texas.
<i>Financial Advisor</i> .....	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i> .....	The Bank of New York Mellon Trust Company, N. A., Dallas, Texas.
<i>Escrow Agent</i> .....	The Bank of New York Mellon Trust Company, N. A., Dallas, Texas.
<i>Verification Agent</i> .....	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

**HURRICANE HARVEY**

<i>General</i> .....	The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, the most recent of which was Hurricane Harvey which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.
<i>Impact on the District</i> .....	According to Municipal Operations & Consulting, Inc. (the “System Operator”), there was no interruption in water service during Hurricane Harvey; however, sanitary sewer service was interrupted due to a submerged lift station at the wastewater treatment plant that the District jointly owns with Harris County Municipal Utility District No. 365. Sewer service was restored when the floodwaters receded. Additionally, based on reports received by the District, approximately 125 homes within the District experienced structural flooding or material damage as a result of Hurricane Harvey.

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. 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. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

**THE DISTRICT**

*Description*.....The District was created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”) dated June 26, 1996. The District currently contains approximately 577 acres of land located in the northwest portion of Harris County approximately 22 miles from downtown Houston, Texas. The District is bounded on the north by Spring-Cypress Road and is located west of Huffmeister Road and north of U.S. Highway 290. The District lies entirely within the extraterritorial jurisdiction of the City of Houston and Cypress Fairbanks Independent School District.

*Status of Development*.....The District provides water, sanitary sewer and drainage facilities to serve Coles Crossing, Sections 9, 14, 15, 16, 17, 19, 20, 21, 26, 27, 28, 29, and 30, the portion of Coles Crossing, Section 10 located within the District and Stillwater Village (collectively, approximately 476 acres of land developed into 1,787 single family residential lots). Construction of underground utilities and street paving is complete. Based on the 2018 tax rolls, the average house value in the District is approximately \$293,996. As of April 15, 2019, the District contained 1,786 occupied single family connections and one vacant single family connection.

The Cypress-Fairbanks Independent School District owns approximately 11 acres of land in the District on which it has constructed an elementary school, and approximately 9 acres of land in the District have been developed as part of an 18 acre church site. Land and facilities of independent school districts and churches are not subject to taxation by the District. The District also has approximately 9 acres of commercial development, which includes a child day care facility, a gas station/convenience store, a hair salon, a car wash, an Alzheimer’s care center and a small strip shopping center, and approximately 3 acres developed as a recreation center. Multifamily development in the District includes Carrington Park, an apartment community containing 232 units on approximately 12 acres. According to property management, Carrington Park is approximately 92% occupied.

All land in the District is served with underground water, sanitary sewer, and drainage facilities except for approximately 29 acres of greenspace owned by the community association and approximately 28 acres of undevelopable land consisting of detention and drainage facilities and rights-of-way. See “THE DISTRICT—Status of Development.”

**INVESTMENT CONSIDERATIONS**

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “INVESTMENT CONSIDERATIONS.”

## SELECTED FINANCIAL INFORMATION

2018 Certified Taxable Assessed Valuation.....	\$546,274,160	(a)
2019 Preliminary Taxable Assessed Valuation.....	\$586,935,355	(b)
Gross Direct Debt Outstanding (after issuance of the Bonds).....	\$11,435,000	(c)
Estimated Overlapping Debt.....	<u>33,014,012</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$44,449,012	(d)
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	2.09%	
2019 Preliminary Taxable Assessed Valuation.....	1.95%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation .....	8.14%	
2019 Preliminary Taxable Assessed Valuation .....	7.57%	
Debt Service Funds Available as of May 28, 2019 .....	\$1,898,830	(e)
General Operating Fund Balance as of May 28, 2019.....	\$5,082,262	
2018 Tax Rate:		
Debt Service.....	\$0.275	
Maintenance and Operations.....	<u>0.180</u>	
Total.....	\$0.455/\$100 A.V.	
Average Annual Debt Service Requirement (2020-2028) (“Average Requirement”).....	\$1,263,803	(f)
Maximum Annual Debt Service Requirement (2020) (“Maximum Requirement”).....	\$1,502,800	(f)
Tax rate required to pay Average Requirement based upon:		
2018 Certified Taxable Assessed Valuation at a 95% collection rate .....	\$0.25	(g)
2019 Preliminary Taxable Assessed Valuation at a 95% collection rate .....	\$0.23	(g)
Tax rate required to pay Maximum Requirement based upon:		
2018 Certified Taxable Assessed Valuation at a 95% collection rate .....	\$0.29	(g)
2019 Preliminary Taxable Assessed Valuation at a 95% collection rate .....	\$0.27	(g)
Connection counts as of April 15, 2019 (h):		
Single-family residential occupied .....	1,786	
Single-family residential unoccupied .....	1	
Multi-family connections (232 units) .....	1	
Commercial connections .....	6	
Other (Irrigation and Rental).....	<u>38</u>	
Total .....	1,832	
Estimated 2019 population .....	6,715	(i)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2019 taxable value (as of January 1, 2019). Such amount is subject to review and downward adjustment prior to certification. Such amount includes the 2019 preliminary real property value in the amount of \$582,925,015 and the 2018 certified personal property value in the District in the amount of \$4,010,340. No tax will be levied on such amount until it is certified in the fall of 2019. See “TAXING PROCEDURES.”
- (c) After the issuance of the Bonds and excludes the Refunded Bonds. See “FINANCIAL STATEMENT—Outstanding Bonds.”
- (d) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (e) The District will contribute \$144,500 of available debt service funds towards the purpose for which the Bonds are being issued. See “PLAN OF FINANCING—Sources and Uses of Funds.” Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.
- (f) See “DEBT SERVICE REQUIREMENTS.”
- (g) See “TAX DATA—Tax Adequacy for Debt Service.”
- (h) See “THE DISTRICT—Status of Development.”
- (i) Based upon 3.5 persons per occupied single-family residence and 2.0 persons per apartment unit.

**OFFICIAL STATEMENT**

**\$7,470,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
*(A political subdivision of the State of Texas located within Harris County)*

**UNLIMITED TAX REFUNDING BONDS  
SERIES 2019**

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 364 (the “District”) of its \$7,470,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an election held within the District and a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”).

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Radcliffe Bobbitt Adams Polley PLLC (“Bond Counsel”), 2929 Allen Parkway, Suite 3450, Houston, Texas 77019 upon payment of the costs of duplication therefore.

**PLAN OF FINANCING**

**Purpose**

The proceeds of the Bonds, together with other lawfully available funds of the District will be used to currently refund and defease outstanding portions of the District's original issues of \$2,775,000 Unlimited Tax Refunding Bonds, Series 2010, \$1,985,000 Unlimited Tax Bonds, Series 2010A, \$6,685,000 Unlimited Tax Refunding Bonds, Series 2011 and \$5,950,000 Unlimited Tax Refunding Bonds, Series 2012 in order to achieve a reduction in the District's annual debt service expense. Such refunded portions reflected below are collectively referred to as the “Refunded Bonds.” See “Refunded Bonds” HEREIN. A total of \$3,965,000 in principal amount of the District's Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “Sources and Uses of Funds” herein and “FINANCIAL STATEMENT—Outstanding Bonds”.

**Refunded Bonds**

Proceeds of the Bonds and lawfully available debt service funds will be applied to currently refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date September 1	Series 2010	Series 2010A	Series 2011	Series 2012
2021	\$ -	\$ -	\$ -	\$ -
2022	235,000	-	-	435,000
2023	245,000	50,000	520,000	430,000
2024	260,000	50,000	550,000	425,000
2025	-	200,000	695,000	475,000
2026	-	300,000	515,000	470,000
2027	-	400,000	-	465,000
2028	-	435,000	-	-
	<u>\$ 740,000</u>	<u>\$ 1,435,000</u>	<u>\$ 2,280,000</u>	<u>\$ 2,700,000</u>
Redemption Date:	July 25, 2019	July 25, 2019	September 1, 2019	September 1, 2019

**Escrow Agreement**

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Co., N.A., as escrow agent (the “Escrow Agent”).

The Bond Resolution provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolution further provides that from the proceeds of the sale of the Bonds and other available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and used to purchase United States Treasury Obligations (the “Escrowed Securities”). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolutions of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds and lawfully available debt service funds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds .....	\$7,470,000.00
Less: Net Discount on the Bonds.....	(33,012.20)
Plus: Transfer from Debt Service Fund .....	<u>144,500.00</u>
Total Sources of Funds.....	<u>\$7,581,487.80</u>
Uses of Funds:	
Deposit to Escrow Fund.....	\$7,282,592.96
Issuance Expenses and Underwriters’ Discount (a).....	<u>298,894.84</u>
Total Uses of Funds .....	<u>\$7,581,487.70</u>

(a) Includes municipal bond insurance premium.



## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$7,155,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 1,303,866 (a)	\$ 140,703	\$ -	\$ -	\$ -	\$ 1,163,162
2020	1,524,906	281,406	85,000	174,300	259,300	1,502,800
2021	1,510,063	281,406	85,000	147,700	232,700	1,461,356
2022	1,519,281	951,406	755,000	146,000	901,000	1,468,875
2023	1,500,194	1,500,194	1,315,000	130,900	1,445,900	1,445,900
2024	1,494,600	1,494,600	1,330,000	104,600	1,434,600	1,434,600
2025	1,528,200	1,528,200	1,390,000	78,000	1,468,000	1,468,000
2026	1,388,400	1,388,400	1,280,000	50,200	1,330,200	1,330,200
2027	917,000	917,000	835,000	24,600	859,600	859,600
2028	452,400	452,400	395,000	7,900	402,900	402,900
<b>Total</b>	<b>\$ 13,138,909</b>	<b>\$ 8,935,716</b>	<b>\$ 7,470,000</b>	<b>\$ 864,200</b>	<b>\$ 8,334,200</b>	<b>\$ 12,537,394</b>

(a) Excludes the District's March 1, 2019 debt service payment of \$203,866.

Average Annual Debt Service Requirement (2020-2028).....	\$1,263,803
Maximum Annual Debt Service Requirement (2020).....	\$1,502,800

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from July 1, 2019, with interest payable each March 1 and September 1, beginning March 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial paying agent/registrant for the Bonds (the "Paying Agent/Registrar," "Paying Agent" or "Registrar"). The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the 15th day of the month immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

### **Authority for Issuance**

At an election held within the District on August 10, 1996, voters of the District authorized a total of \$23,040,000 principal amount of unlimited tax bonds for the purpose of refunding bonds of the District.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, an election held within the District, City of Houston Ordinance No. 97-416, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

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

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, an annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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.

### **Funds**

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

## **No Arbitrage**

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

## **Redemption Provisions**

Bonds maturing on or after September 1, 2025, are subject to redemption at the option of the District prior to their maturity dates on September 1, 2024, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). If less than all the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the District prior to the redemption date by such random method as the District shall deem fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

## **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the “Book-Entry-Only” System is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

### **Replacement of Paying Agent/Registrar**

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

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

In the event the "Book-Entry-Only" System is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), necessary to provide and maintain 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 \$38,400,000 principal amount of bonds for the purpose of constructing and or acquiring a waterworks, sanitary sewer and storm sewer system and \$23,040,000 principal amount of bonds for refunding purposes and could authorize additional amounts. The District currently has \$12,660,000 principal amount of unlimited tax bonds for waterworks, sanitary sewer and storm sewer systems that remain authorized but unissued, and after the issuance of the Bonds, the District will have \$7,315,000 principal amount of unlimited tax refunding bonds authorized but unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

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

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

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" nor calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

### **Annexation by the City of Houston**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, Texas (“Houston” or the “City”) the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District’s consent, and the City cannot annex territory within the District unless it annexes the entire District; however, 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.

If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See “Strategic Partnership Agreement” below.

### **Strategic Partnership Agreement**

The District and the City of Houston (the “City”) have entered into a Strategic Partnership Agreement effective December 19, 2011 (the “SPA”) pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by TCEQ rules.

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes approximately 3.5 acres of retail and commercial development and approximately 8 acres of undeveloped commercial property within the District. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (herein defined as the “Sales Tax Revenue”). Pursuant to State law, the District is authorized to use sales tax revenue generated under the SPA for any lawful purpose of the City or the District. None of the anticipated sales tax revenue is pledged toward the payment of principal and interest on the Bonds or the Remaining Outstanding Bonds.

### **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently is not contemplating consolidation.

## **Remedies in Event of Default**

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

## **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 unmatured interest coupons attached to them."

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

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

## **Defeasance**

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Resolution does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds, of each series will be issued as fully-registered Bonds 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. With respect to each series of the Bonds, one fully-registered Bond certificate will be issued of each such series for each maturity of the Bonds, each in the aggregate principal amount 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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 Bonds 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. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 Bonds 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, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Initial Purchaser take any responsibility for the accuracy thereof.

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by order of the TCEQ, dated June 26, 1996, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the City, the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance parks and recreational facilities and roadways, which are also contingent upon the granting of road powers by the TCEQ.



The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County, Texas. The District is also required to obtain certain TCEQ approvals prior to acquiring, constructing and financing road and fire fighting facilities, as well as voter approval of the issuance of bonds for said purposes. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

The District currently contains approximately 577 acres of land and is located approximately 22 miles northwest of downtown Houston. The District is located south of Spring-Cypress Road, west of Huffmeister Road and north of U.S. Highway 290. All land within the District lies within the exclusive extraterritorial jurisdiction of the City.

### **Status of Development**

The District provides water, sanitary sewer and drainage facilities to serve Coles Crossing, Sections 9, 14, 15, 16, 17, 19, 20, 21, 26, 27, 28, 29, and 30, the portion of Coles Crossing, Section 10 located within the District and Stillwater Village (collectively, approximately 476 acres of land developed into 1,787 single family residential lots). Construction of underground utilities and street paving is complete. Based on the 2018 tax rolls, the average house value in the District is approximately \$293,996. As of April 15, 2019, the District contained 1,786 occupied single family connections and one vacant single family connection.

The Cypress-Fairbanks Independent School District owns approximately 11 acres of land in the District on which it has constructed an elementary school, and approximately 9 acres of land in the District have been developed as part of an 18 acre church site. Land and facilities of independent school districts are not subject to taxation by the District. The District also has approximately 9 acres of commercial development, which includes a child day care facility, a gas station/convenience store, a hair salon, a car wash, an Alzheimer's care center and a strip shopping center and approximately 3 acres developed as a recreation center. Multifamily development in the District includes Carrington Park, an apartment community containing 232 units on approximately 12 acres. According to property management, Carrington Park is approximately 92% occupied.

All land in the District is served with underground water, sanitary sewer, and drainage facilities except for approximately 29 acres of greenspace owned by the community association and approximately 28 acres of undevelopable land consisting of detention and drainage facilities and rights-of-way.

### **Community Facilities**

Community facilities are located in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities and other retail and service establishments are located within four miles of the District along areas adjacent to U.S. 290. Fire protection for the District is provided by the Cypress-Fairbanks Volunteer Fire Department which operates a total of nine area fire stations. The land within the District is located within the boundaries of Cypress-Fairbanks Independent School District, and children within the District attend elementary, junior high and high schools of Cypress-Fairbanks Independent School District located within two miles of the development in the District.

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. All of the Directors listed below reside within the District. Directors are elected by the voters within the District for four-year staggered terms. Directors elections are held only in November of even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Vince DeAngelis	President	November 2020
Dale R. Trevino	Vice President/Compliance Officer	November 2022
Ross A. Crawford	Secretary/Investment Officer	November 2020
Lucinda A. Henrichson	Assistant Secretary	November 2022
Erin Corken	Director	November 2020

While the District does not employ any full-time employees, it has contracted for certain services as follows:

### **Tax Assessor/Collector**

Land and improvements within the District are appraised for ad valorem taxation purposes by the Harris County Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Bob Leared Interests, Inc. is currently serving in this capacity for the District.

### **Bookkeeper**

The District has engaged Myrtle Cruz, Inc. to serve as the District's bookkeeper.

### **System Operator**

The District contracts with Municipal Operations & Consulting, Inc. for maintenance and operation of the District's system.

### **Engineer**

The consulting engineer for the District in connection with the design and construction of the District's facilities is Van de Wiele & Vogler, Inc. (the "Engineer").

### **Attorney**

The District has engaged Radcliffe Bobbitt Adams Polley PLLC as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are payable from proceeds of the sale of the Bonds and contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ended August 31, 2018, were audited by McCall Gibson Swedlund Barfoot, PLLC Certified Public Accountants. See "APPENDIX A" for a copy of the District's August 31, 2018, financial statement.

### **Financial Advisor**

Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

## THE SYSTEM

### **Regulation**

According to the Engineer, the District's water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The TCEQ exercises continuing supervisory authority over the District. Discharge of treated wastewater effluent is subject to the regulatory authority of the TCEQ and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, the City, Harris County and, in some instances, the TCEQ. Harris County and the City also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the District's wastewater treatment plant beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

### **Water, Sanitary Sewer and Drainage Facilities**

*Source of Water Supply:* The District has entered into an interload agreement with Harris County Municipal Utility District No. 365 ("MUD 365") to jointly own and operate permanent water plant facilities serving all property within the District, except Stillwater Village. According to the terms of the Coles Crossing Joint Facilities Agreement, between the District and MUD 365, as amended, the District owns 44% of the permanent water supply facilities. The remaining 56% is owned by MUD 365. The District's water supply for all property other than Stillwater Village is provided by its share of two water plants and one remote well. Water Plant No. 1 includes one 1,100 gallon per minute ("gpm") well, two (2) 428,000 gallon ground storage tanks, two 15,000 gallon hydropneumatic tanks, four 1,000 gpm booster pumps, one generator, and related appurtenant equipment. The remote well is a 1,100 gpm well. Water Plant No. 2 includes a 1,100 gpm well, two 428,000 gallon ground storage tanks, two 10,000 gallon hydropneumatic tanks, four 1,000 gpm booster pumps, one generator, and related appurtenant equipment.

The District has purchased water supply capacity to serve Stillwater Village from Harris County Municipal Utility District No. 360 ("MUD 360"). The water plant jointly owned by the District and MUD 360 and operated by MUD 360 includes two wells with a combined capacity of 2,200 gpm, three 420,000 gallon ground storage tanks, booster pumps with a total capacity of 4,480 gpm, and two 20,000 gallon pressure tanks. The District owns an equitable interest of 6.2% of the water supply facilities and the remaining 93.8% is owned by MUD 360, pursuant to the Water Supply Contract between the District and MUD 360.

According to the Engineer, the District owns water supply capable of serving approximately 2,083 equivalent single family connections. MUD 364 leases approximately 143 equivalent single family connections from MUD 365. Additionally, the system the District shares with MUD 365 is interconnected with Harris County Water Control and Improvement District No. 113 and Northwest Harris County Municipal Utility District No. 10 for emergency water supply needs.

Expansion of the facilities at Water Plant No. 2 is under construction with anticipated completion in the second quarter of 2019. The District is expending surplus operating funds to finance its share of the expansion to Water Plant No. 2. See "FINANCIAL STATEMENT—Cash and Investment Balances." After the completion of the water plant expansion, the facilities will be able to serve 2,345 equivalent single family connections

*Subsidence and Conversion to Surface Water Supply:* The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to an alternate source of water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 1999, the Texas legislature created the North Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including the District). The District's ability to pump groundwater is subject to an annual permit issued to the Authority in the aggregate for nearly all potable water systems within its boundaries including the District. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to an alternate source of water (e.g., surface water). The District is included within the Authority's GRP and, as a result, the District is deemed to have complied with the Subsidence District's requirements as long as the Authority complies with its GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. The Authority currently charges MUD 365, MUD 360 and other major groundwater users a substantial fee based on the amount of groundwater they pumped, and MUD 365 and MUD 360 bill the District for its pro rata share of such fee. Such fee is currently \$3.85 per 1,000 gallons pumped and may increase further in the future at the Authority's discretion. In addition, the Authority generates revenue from the sale of surface water to public water systems within its boundaries. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the fees charged by the Authority will increase substantially in the future.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) through the year 2024, limit groundwater withdrawals to no more than 70% of the total annual water demand within the Authority's GRP (ii) beginning in the year 2025, limit groundwater withdrawals to no more than 40% of the total annual water demand within the Authority's GRP; and (iii) beginning in the year 2035, limit groundwater withdrawals to no more than 20% of the total annual water demand within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty in the amount of \$9.00 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of the applicable percentage of the total water demand within the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District. To date, the Authority has not required the District convert to surface water.

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

*Source of Wastewater Treatment:* The District's wastewater treatment capacity is provided by two (2) wastewater treatment plants, one which it jointly owns with MUD 365 and one in which it jointly owns with MUD 360. The wastewater treatment plant jointly owned by the District and MUD 365 and operated by MUD 365 is a permanent 900,000 gpd wastewater treatment plant which provides service to all property within the District, except Stillwater Village. Pursuant to the terms of the Coles Crossing Joint Facilities Agreement between the District and MUD 365, the District owns 53.6% of the permanent facility. The remaining 46.4% is owned by MUD 365.

The wastewater treatment plant jointly owned by the District and MUD 360 and operated by MUD 360 is an 800,000 gpd wastewater treatment plant, which provides service to Stillwater Village within the District. Pursuant to the terms of the Waste Disposal Agreement between the District and MUD 360, the District owns an 8.7% equitable interest in the capacity of MUD 360's wastewater treatment plant.

According to the Engineer, the joint wastewater treatment plant with MUD 365 contains sufficient capacity to serve approximately 3,600 single family equivalent connections based on actual flow data, of which the District's share is 1,929 equivalent single family connections. The joint wastewater treatment plant with MUD 360 contains sufficient capacity to serve approximately 2,667 single family equivalent connections, of which the District's share is 232 single family equivalent connections, for a total of 2,161 single family equivalent connections of wastewater capacity available to the District.

The District is expending surplus operating funds to finance its share of the expansion of the MUD 364/MUD 365 joint wastewater treatment plant. See "FINANCIAL STATEMENT—Cash and Investment Balances." Expansion of the joint wastewater plant is under design. Construction is anticipated to commence in the third quarter of 2019, with anticipated completion in the second quarter of 2020. After the completion of the wastewater plant expansion, the facilities will be able to serve approximately 3,880 equivalent single family connections, of which the District's share will be 2,209 equivalent single family connections.

**100-Year Flood Plain:**

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (“FEMA”) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District’s drainage system has been designed and constructed to standards applicable at the time. According to the Engineer, all land within the District where development and homebuilding has occurred is located outside the limits of the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

**UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED**

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
08/10/96	Water, Sanitary Sewer and Drainage	\$38,400,000	\$25,740,000	\$12,660,000
08/10/96	Refunding	\$23,040,000	\$15,725,000*	\$7,315,000*

\* Includes the Bonds.

## FINANCIAL STATEMENT

2018 Certified Taxable Assessed Valuation.....	\$546,274,160 (a)
2019 Preliminary Taxable Assessed Valuation.....	\$586,935,355 (b)

**District Debt:**

Outstanding Bonds as of May 1, 2019 .....	\$11,120,000 (c)
Less: Refunded Bonds.....	(7,155,000) (d)
Plus: The Bonds .....	<u>7,470,000</u>
Gross Debt Outstanding (after the issuance of the Bonds).....	<u>\$11,435,000</u>

**Ratios of Gross Debt to:**

2018 Certified Taxable Assessed Valuation .....	2.09%
2019 Preliminary Taxable Assessed Valuation .....	1.95%

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2019 taxable value (as of January 1, 2019). Such amount is subject to review and downward adjustment prior to certification. Such amount includes the 2019 preliminary real property value in the amount of \$582,925,015 and the 2018 certified personal property value in the District in the amount of \$4,010,340. No tax will be levied on such amount until it is certified in the fall of 2019. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds and excludes the Refunded Bonds. See "Outstanding Bonds" herein.
- (d) See "ESTIMATED OVERLAPPING DEBT STATEMENT."

**Cash and Investment Balances** (unaudited as of May 28, 2019)

Operating Fund	Cash and Temporary Investments	\$5,082,262 (a)
Debt Service Fund	Cash and Temporary Investments	\$1,898,830 (b)

- (a) The District is expending surplus operating funds in the approximate amounts of \$1,604,764 and \$396,096 to fund the expansions to the joint wastewater treatment plant and Water Plant No. 2, respectively. See "THE SYSTEM— Water, Sanitary Sewer and Drainage Facilities."
- (b) The District will contribute \$144,500 of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Balance gives effect to payment of debt service due on the Outstanding Bonds on March 1, 2019. Neither Texas law nor any Bond Resolution (including the Bond Resolution) requires the District to maintain any minimum balance in the Debt Service Fund.

**Investments of the District**

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 on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation 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's investment portfolio.

**Outstanding Bonds**

The District has previously issued four series of bonds for which principal remains outstanding (the "Outstanding Bonds"). The following table lists the original principal amount and the currently outstanding principal amount of the Outstanding Bonds, the principal amount of the Refunded Bonds and the principal amount of Remaining Outstanding Bonds for each such series.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2010 (a)	\$ 2,775,000	\$ 1,385,000	\$ 740,000	\$ 645,000
2010A	1,985,000	1,635,000	1,435,000	200,000
2011 (a)	6,685,000	4,175,000	2,280,000	1,895,000
2012 (a)	<u>5,950,000</u>	<u>3,925,000</u>	<u>2,700,000</u>	<u>1,225,000</u>
Total	\$ 17,395,000	\$ 11,120,000	\$ 7,155,000	\$ 3,965,000
The Bonds				<u>7,470,000</u>
The Bonds and Remaining Outstanding Bonds				<u>\$ 11,435,000</u>

(a) Unlimited tax refunding bonds.

## ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities which include the territory in the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in the Texas Municipal Reports published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date of such reports, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of the overlapping Tax Debt allocable to the District.

Taxing Body	Gross Debt		Percent of Overlapping Gross Debt	Amount of Overlapping Gross Debt
	Amount	As of		
Harris County.....	\$ 2,500,000,000	4/30/2019	0.12%	\$ 3,000,000
Harris County Flood Control District.....	83,075,000	4/30/2019	0.12%	99,690
Harris County Hospital District.....	57,300,000	4/30/2019	0.12%	68,760
Harris County Department of Education.....	6,320,000	4/30/2019	0.12%	7,584
Port of Houston Authority.....	593,754,397	4/30/2019	0.12%	712,505
Cypress-Fairbanks Independent School District.....	2,586,595,000	4/30/2019	1.06%	27,417,907
Lone Star College District.....	609,845,000	4/30/2019	0.28%	1,707,566
Total Estimated Overlapping Debt.....				\$ 33,014,012
The District.....	11,435,000 (a)	Current	100.00%	11,435,000
Total Direct and Estimated Overlapping Debt.....				\$ 44,449,012
Ratio Direct and Estimated Overlapping Debt to:				
2018 Certified Taxable Assessed Valuation.....				8.14%
2019 Preliminary Taxable Assessed Valuation.....				7.57%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

### Overlapping Taxes for 2018

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority.....	\$ 0.63517
Cypress- Fairbanks Independent School District.....	1.44000
Harris County ESD No. 9.....	0.05271
Lone Star College System.....	<u>0.10780</u>
Total Overlapping Tax Rate.....	\$ 2.23568
The District.....	<u>0.45500</u>
Total Tax Rate.....	\$ 2.69068

## TAX DATA

### Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records and District audited financial statements. Reference is made to these records and statements for further and more complete information.

Tax Year	Net Certified Taxable Valuation	Tax Rate	Total Tax Levy	Total Collections as of April 30, 2019 (a)	
				Amount	Percent
2014	\$ 488,189,639	\$ 0.485	\$ 2,367,721	\$ 2,367,473	99.99%
2015	533,244,409	0.455	2,426,263	2,425,961	99.99%
2016	552,698,570	0.455	2,514,779	2,514,422	99.99%
2017	550,947,789	0.455	2,506,813	2,506,368	99.98%
2018	546,274,160	0.455	2,485,548	2,460,018	98.97%

(a) Unaudited.

Taxes are levied each year and become delinquent after January 31 of the following year.

### Tax Rate Distribution

	2018	2017	2016	2015	2014
Debt Service	\$ 0.275	\$ 0.275	\$ 0.275	\$ 0.290	\$ 0.315
Maintenance and Operations	0.180	0.180	0.180	0.165	0.170
Total	\$ 0.455	\$ 0.455	\$ 0.455	\$ 0.455	\$ 0.485

### Tax Rate Limitations

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

### Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds and the Remaining Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Remaining Outstanding Bonds. See "Tax Rate Distribution" and "Summary of Assessed Valuation" below.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect a continuing direct annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electorate. On August 10, 1996, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. The District levied a maintenance tax for 2018 at the rate of \$0.18 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds.

### Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" in the Official Statement, certain property in the District may be exempt from taxation by the District. For tax year 2019, the District has granted a \$20,000 exemption for residential homesteads of persons who are disabled or 65 years of age or over.

### Additional Penalties

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



**Principal Taxpayers**

The following list of principal taxpayers was provided by the District's tax assessor/collector and represents the principal taxpayers' value as a percentage of the 2018 Certified Taxable Assessed Valuation of \$546,274,160. This represents ownership as of January 1, 2018. A principal taxpayer list related to the 2019 Preliminary Taxable Assessed Valuation of \$586,935,355, which is subject to review and downward adjustment prior to certification, is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>
Sir Carrington Park LLC	Apartments	\$ 25,878,660
AJ Schools LLC	Commercial	2,752,690
Daisy First LP	Strip Shopping Center	2,425,898
NTI Drop Down One LLC	Land & Improvements	2,022,809
Demody Family Limited	Commercial	1,648,084
Centerpoint Energy Houston	Utility	1,436,670
CSS Real Estate Holdings	Commercial	1,141,923
Homeowner	Residential	738,617
Centerpoint Energy Entex	Utility	728,080
NGS Properties LLC	Land & Improvements	716,734
Total		<u>\$ 39,490,165</u>
% of Tax Roll		7.23%

**Summary of Assessed Valuation**

The following summary of the 2018, 2017 and 2016 Assessed Valuations is provided by the District's Tax Assessor/Collector based on information contained in the 2018, 2017 and 2016 tax rolls of the District. Differences in values from other information herein are due to differences in dates of information provided. A breakdown of the 2019 Preliminary Taxable Assessed Valuation of \$586,935,355, which is subject to review and downward adjustment prior to certification, is not included herein.

	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>	<u>2016 Certified Taxable Assessed Valuation</u>
Land	\$ 95,230,683	\$ 95,456,965	\$ 92,678,051
Improvements	471,834,365	475,630,703	481,180,098
Personal Property	4,010,340	4,083,332	5,881,602
Exemptions	<u>(24,801,228)</u>	<u>(24,223,211)</u>	<u>(27,041,181)</u>
Total	<u>\$ 546,274,160</u>	<u>\$ 550,947,789</u>	<u>\$ 552,698,570</u>

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$546,274,160 and the 2019 Preliminary Taxable Assessed Valuation of \$586,935,355 which is subject to review and downward adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, and the sale of no additional bonds. See "DEBT SERVICE REQUIREMENTS."

Average Annual Debt Service Requirement (2020-2028) .....	\$1,263,803
\$0.25 tax rate on 2018 Certified Taxable Assessed Valuation .....	\$1,297,401
\$0.23 tax rate on 2019 Preliminary Taxable Assessed Valuation .....	\$1,282,454
Maximum Annual Debt Service Requirement (2020).....	\$1,502,800
\$0.29 tax rate on the 2018 Certified Taxable Assessed Valuation.....	\$1,504,985
\$0.27 tax rate on Preliminary Taxable Assessed Valuation .....	\$1,505,489

## TAX 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 of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully herein under “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. See “TAX DATA—Debt Service Tax—Maintenance Tax.”

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

Title I of the Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility 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 County Appraisal Review Board (the “Appraisal Review Board”).

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; 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 to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approves 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. For the 2019 tax year, the District has granted an exemption of \$20,000 of assessed valuation for homesteads of persons 65 years of age or older and for certain disabled persons. 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, of between \$5,000 and \$12,000 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 was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse's residence homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to the subsequent homesteads. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also 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. See “TAX DATA.”

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

*Freeport Goods and Goods-in-Transit Exemptions:* A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for fewer 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 is limited to 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 personal 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 may designate all or part of the area within the District as a reinvestment zone subject to tax abatement agreements. Thereafter, Harris County, the District, and the City of Houston (after annexation of the District), under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

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

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, 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. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of 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 the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the 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 the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

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

Under current law, 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.

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District's operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District's total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the "total tax rate"). See "TAX DATA—Tax Rate Distribution" for a description of the District's current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District's total tax rate if the District's total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as “Low Tax Rate Districts.” Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as “Developed Districts.” Districts that do not meet either of the classifications previously discussed are classified herein as “Other Districts.” The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

#### *Low Tax Rate Districts*

Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

#### *Developed Districts*

Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold a rollback election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

#### *Other Districts*

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If a rollback election is called and passes, the total tax rate for Other Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

#### *The District*

A determination as to a district's status as a Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation.

### **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 local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of 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 such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2018." 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, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the cost of suit and sale, 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 (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations."

## WATER AND SEWER OPERATIONS

### General

The Remaining Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Remaining Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Remaining Outstanding Bonds in the foreseeable future.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ending 2016 through 2018, and for the period ended April 30, 2019, from the District's Bookkeeper. Reference is made to such records and statements for further and more complete information.

	9/1/2018 to 4/30/2019 (a) (Unaudited)	Fiscal Year Ended August 31,			
		2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 971,126	\$ 991,500	\$ 992,533	\$ 877,809	\$ 833,849
Water service	312,625	576,334	537,637	518,480	542,805
Wastewater service	211,184	285,968	289,295	317,871	286,269
Regional water authority fees	441,970	807,387	687,040	569,751	515,197
Penalty and interest	6,879	12,679	14,071	12,540	11,957
Tap connection & inspection fees	1,540	-	-	-	-
Investment revenues	77,025	-	-	-	-
Miscellaneous revenues	8,001	86,184	108,780	34,944	38,883
Total revenues	<u>\$ 2,030,351</u>	<u>\$ 2,760,052</u>	<u>\$ 2,629,356</u>	<u>\$ 2,331,395</u>	<u>\$ 2,228,960</u>
<b>Expenditures</b>					
Professional Fees	\$ 110,306	\$ 160,233	\$ 160,511	\$ 144,672	\$ 157,854
Contracted Services	59,892	85,070	85,745	83,344	85,448
Purchased services	1,111,357	1,350,217	1,231,164	1,114,205	1,029,394
Utilities	7,286	10,786	9,534	9,050	9,247
Repairs and maintenance	119,078	191,332	149,841	144,312	143,407
Other	73,214	122,319	142,595	108,941	124,987
Capital Outlay	811,785	119,080	125,557	-	-
Debt Service - Bond Principal	-	-	-	-	-
Total expenditures	<u>\$ 2,292,918</u>	<u>\$ 2,039,037</u>	<u>\$ 1,904,947</u>	<u>\$ 1,604,524</u>	<u>\$ 1,550,337</u>
Net Change in Fund Balances	\$ (262,566)	\$ 721,015	\$ 724,409	\$ 726,871	\$ 678,623
<b>Beginning Fund Balance</b>	<u>\$ 5,378,954</u>	<u>\$ 4,657,939</u>	<u>\$ 3,933,530</u>	<u>\$ 3,206,659</u>	<u>\$ 2,528,036</u>
<b>Ending Fund Balance</b>	<u>\$ 5,116,388</u>	<u>\$ 5,378,954</u>	<u>\$ 4,657,939</u>	<u>\$ 3,933,530</u>	<u>\$ 3,206,659</u>

(a) Unaudited. Provided by the District's Bookkeeper.

## INVESTMENT CONSIDERATIONS

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners taxes levied on taxable property within the District in an amount sufficient to service the District's debt, or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of and Security for Payment." The collection by the District of delinquent taxes owed to it and the enforcement by the Registered Owners of the Bonds of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will occur or that property in the District will maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property. See "Registered Owners' Remedies and Bankruptcy Limitations" herein.

### **Hurricane Harvey**

The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, the most recent of which was Hurricane Harvey which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the System Operator, there was no interruption in water service during Hurricane Harvey; however, sanitary sewer service was interrupted due to a submerged lift station at the wastewater treatment plant that the District jointly owns with Harris County Municipal Utility District No. 365. Sewer service was restored when the floodwaters receded. Additionally, based on reports received by the District, approximately 125 homes within the District experienced structural flooding or material damage as a result of Hurricane Harvey.

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. 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.

### **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, multifamily, and commercial properties. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for and the value of such properties. New home and commercial construction can be significantly affected by factors such as interest rates, construction costs, credit availability, energy availability and cost, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. Declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the values of existing homes. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected.



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

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

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such 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, the 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 Owner could potentially and adversely impair the value of the Registered Owner's 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 the 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 a district.

A district may not be forced into bankruptcy involuntarily.

## **Future Debt**

The District reserves in the Bond Resolution the right to issue the remaining \$12,660,000 principal amount of unlimited tax bonds for a waterworks, sanitary sewer and storm sewer system which have been authorized at an election held within the District and such additional bonds as may be authorized at a future election. Following the issuance of the Bonds, the District will have \$7,315,000 principal amount of unlimited tax refunding bonds authorized by the voters, but unissued which the District also reserves in the Bond Resolution the right to issue. The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the TCEQ, the Attorney General of Texas and the Board of the District. See "THE BONDS—Issuance of Additional Debt."

## **Tax Collection Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "ESTIMATED OVERLAPPING DEBT STATEMENT"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **Environmental Regulations**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

definition of “waters of the United States.” Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved. Subsequently, on May 28, 2019, the U.S. District Court for the Southern District of Texas found that the CWR violated the notice-and-comment requirements of the Administrative Procedures Act, remanded the CWR to the EPA and USACE, and ordered that the preliminary injunction issued September 12, 2018, remain in place pending the proceedings on remand.

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

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term rating on the Bonds is dependent in part on the financial strength of the insurer (the “Insurer”) and its claim paying ability. The 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 rating of the Insurer and of the rating on the Bonds insured by the 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 “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

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

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

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

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

### **Marketability**

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 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 difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

## **Changes in Tax Legislation**

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

## **LEGAL MATTERS**

### **Legal Proceedings**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect.

Bond Counsel for the District, Radcliffe Bobbitt Adams Polley PLLC, has reviewed the information appearing in the Official Statement under “PLAN OF FINANCING—Escrow Agreement,” “THE BONDS,” “THE DISTRICT—General,” “TAX PROCEDURES,” “LEGAL MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. In its capacity as Special Tax Counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas has reviewed the information appearing in this Official Statement under the caption “LEGAL MATTERS—Legal Proceedings” (insofar as such section relates to the opinion of Special Tax Counsel) and “TAX MATTERS” solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

### **No 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 financial condition of the District from that set forth or contemplated in the Preliminary Official Statement, as amended or supplemented through the date of sale.

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

## TAX MATTERS

### Tax Exemption

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax- exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax- exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax- exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

### **Qualified Tax-Exempt Obligations**

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign a 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 Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of "A+" to the Bonds. An explanation of the rating may be obtained from S&P.

The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## **MUNICIPAL BOND INSURANCE**

### **Municipal Bond Insurance Policy**

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

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

### **Assured Guaranty Municipal Corp.**

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

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

## Current Financial Strength Ratings

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

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

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

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

## Capitalization of AGM

At March 31, 2019:

- The policyholders' surplus of AGM was approximately \$2,523 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,054 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,848 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

## *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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



## *Miscellaneous Matters*

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

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

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$7,379,687.96 (representing the principal amount of the Bonds of \$7,470,000.00, minus a net discount on the Bonds of \$33,012.20, less an Underwriter’s discount of \$57,299.84) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

### **Prices and Marketability of the Bonds**

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any 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 that stabilize or maintain the market prices of the Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission 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 other 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 jurisdiction.

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds; (b) the mathematical computations of yield used by Special Tax Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes; and (c) compliance with the City of Houston Ordinance 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District’s retained advisors, consultants or legal counsel.

## PREPARATION OF OFFICIAL STATEMENT

### **Sources and Compilation of Information**

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this 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**

Masterson Advisors LLC is engaged 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. In its capacity as Financial Advisor, Masterson Advisors LLC 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.

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

**Appraisal District:** The information contained in this Official Statement relating to the assessed valuations has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Harris County, including the District.

**Tax Assessor/Collector:** The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Interests, Inc. and is included herein in reliance upon its authority as an expert in assessing and collecting taxes.

**Auditor:** The District's financial statements for the fiscal year ending August 31, 2018 were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants . See APPENDIX A for a copy of the District's audited financial statements for the fiscal year ended August 31, 2018.

**Bookkeeper:** The information related to the "unaudited" summary of the District's General Fund as it appears in "WATER AND SEWER OPERATIONS" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

### **Updating the Official Statement**

If subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to the Underwriter 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 for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

## **Certification of Official Statement**

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Resolution, the District has the following agreement for the benefit of the registered 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 events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

### **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DEBT SERVICE REQUIREMENTS," "FINANCIAL STATEMENT," "TAX DATA," "THE SYSTEM," "WATER AND SEWER OPERATIONS, and "APPENDIX A" (Independent Auditor's Report and Financial Statements of the District). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2019. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit becomes available.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by February 28 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.

### **Material Event Notices**

The District will provide timely notices of certain specified 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 17 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 an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default,

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

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

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public through the EMMA internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

## **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 364, as of the date shown on the cover page.

/s/ Vince DeAngelis  
President, Board of Directors  
Harris County Municipal Utility District No. 364

ATTEST:

/s/ Ross A. Crawford  
Secretary, Board of Directors  
Harris County Municipal Utility District No. 364

**APPENDIX A**

**Financial Statement of the District for the fiscal year ended August 31, 2018**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2018**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2018**





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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris County Municipal  
Utility District No. 364  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 364 (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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 August 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

November 27, 2018



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2018**

Management's discussion and analysis of Harris County Municipal Utility District No. 364's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2018. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,835,225 as of August 31, 2018. A portion of the District's net position reflects its net investment in capital assets (land as well as the water system, wastewater system and jogging trails, less any debt used to acquire those assets that is still outstanding). The following table provides a comparative analysis of the District's Statement of Net Position as of August 31, 2018, and August 31, 2017:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 6,615,270	\$ 5,919,324	\$ 695,946
Capital Assets (Net of Accumulated Depreciation)	8,970,597	9,218,921	(248,324)
Total Assets	\$ 15,585,867	\$ 15,138,245	\$ 447,622
Bonds Payable	\$ 11,251,090	\$ 12,349,841	\$ 1,098,751
Other Liabilities	499,552	492,457	(7,095)
Total Liabilities	\$ 11,750,642	\$ 12,842,298	\$ 1,091,656
Net Position:			
Net Investment in Capital Assets	\$ (2,280,493)	\$ (3,130,920)	\$ 850,427
Restricted	732,133	762,634	(30,501)
Unrestricted	5,383,585	4,664,233	719,352
Total Net Position	\$ 3,835,225	\$ 2,295,947	\$ 1,539,278

The following table provides a comparative analysis of the District's operations for the years ended August 31, 2018, and August 31, 2017.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,502,094	\$ 2,510,989	\$ (8,895)
Charges for Services	1,692,573	1,538,054	154,519
Other Revenues	105,809	115,213	(9,404)
Total Revenues	\$ 4,300,476	\$ 4,164,256	\$ 136,220
Expenses for Services	2,761,198	2,650,275	(110,923)
Change in Net Position	\$ 1,539,278	\$ 1,513,981	\$ 25,297
Net Position, Beginning of Year	2,295,947	781,966	1,513,981
Net Position, End of Year	\$ 3,835,225	\$ 2,295,947	\$ 1,539,278

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of August 31, 2018, were \$6,102,109 an increase of \$696,888 from the prior year.

The General Fund fund balance increased by \$721,015, primarily due to service and tax revenues exceeding operating and administration costs.

The Debt Service Fund fund balance decreased by \$24,127, primarily due to the structure of the District's outstanding debt.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$226,552 more than budgeted revenues primarily due to higher than anticipated water authority fees and investment revenues. Actual expenditures were \$1,502,718 less than budgeted expenditures primarily due to lower than expected capital costs, purchased water costs and professional fees.

**CAPITAL ASSETS**

Capital assets as of August 31, 2018, total \$8,970,597 (net of accumulated depreciation) and include land, jogging trails, and the water and wastewater systems. Construction in progress includes costs related to the expansion of the water plant and wastewater treatment plant facilities shared with Harris County Municipal Utility District No. 365.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,397,293	\$ 1,397,293	\$
Construction in Progress	257,008	130,863	126,145
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,385,188	2,524,164	(138,976)
Wastewater System	4,257,467	4,458,371	(200,904)
Jogging Trails	673,641	708,230	(34,589)
Total Net Capital Assets	\$ 8,970,597	\$ 9,218,921	\$ (248,324)

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2018**

**LONG-TERM DEBT ACTIVITY**

As of August 31, 2018, the District had total bond debt payable of \$11,120,000. The changes in the debt position of the District during the fiscal year ended August 31, 2018, are summarized as follows:

Bond Debt Payable, September 1, 2017	\$ 12,205,000
Less: Bond Principal Paid	<u>1,085,000</u>
Bond Debt Payable, August 31, 2018	<u>\$ 11,120,000</u>

The District carries an underlying rating of "A+" by Standard & Poor's. The Series 2010 Refunding bonds carry an insured rating of "AA" by virtue of bond insurance issued by Assured Guaranty Corp. The Series 2010A, Series 2011 Refunding and Series 2012 Refunding bonds carry insured ratings of "AA" by virtue of bond insurance issue by Assured Guaranty Municipal Corp. The ratings above reflect changes, if any, through August 31, 2018.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 364, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019-7120.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**AUGUST 31, 2018**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 289,692	\$ 130,156
Investments	5,127,451	588,638
Receivables:		
Property Taxes	4,631	7,183
Penalty and Interest on Delinquent Taxes		
Service Accounts	166,057	
Sales Tax Revenues	4,996	
Accrued Interest	23,268	3,939
Other	11,585	
Due from Other Funds		422
Prepaid Costs	11,993	
Advances for Water Plant Operations	148,493	
Advances for Wastewater Treatment		
Plant Operations	46,260	
Advances for Joint Facility Capital Projects	49,133	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 5,883,559</b>	<b>\$ 730,338</b>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 419,848	\$	\$ 419,848
5,716,089		5,716,089
11,814		11,814
	1,795	1,795
166,057		166,057
4,996		4,996
27,207		27,207
11,585		11,585
422	(422)	
11,993		11,993
148,493		148,493
46,260		46,260
49,133		49,133
	1,397,293	1,397,293
	257,008	257,008
	<u>7,316,296</u>	<u>7,316,296</u>
<u>\$ 6,613,897</u>	<u>\$ 8,971,970</u>	<u>\$ 15,585,867</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**AUGUST 31, 2018**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 354,553	\$
Due to Other Funds	422	
Security Deposits	144,999	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 499,974</b>	<b>\$ -0-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 4,631	\$ 7,183
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 11,993	\$
Water Plant Operations	148,493	
Wastewater Treatment Plant Operations	46,260	
Joint Facility Capital Projects	49,133	
Restricted for Debt Service		723,155
Unassigned	5,123,075	
<b>TOTAL FUND BALANCES</b>	<b>\$ 5,378,954</b>	<b>\$ 723,155</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 5,883,559</b>	<b>\$ 730,338</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 354,553	\$	\$ 354,553
422	(422)	
144,999		144,999
	1,100,000	1,100,000
	10,151,090	10,151,090
\$ 499,974	\$ 11,250,668	\$ 11,750,642
\$ 11,814	\$ (11,814)	\$ - 0 -
\$ 11,993	\$ (11,993)	\$
148,493	(148,493)	
46,260	(46,260)	
49,133	(49,133)	
723,155	(723,155)	
5,123,075	(5,123,075)	
\$ 6,102,109	\$ (6,102,109)	\$ - 0 -
\$ 6,613,897		
	\$ (2,280,493)	\$ (2,280,493)
	732,133	732,133
	5,383,585	5,383,585
	\$ 3,835,225	\$ 3,835,225

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
AUGUST 31, 2018**

Total Fund Balances - Governmental Funds	\$ 6,102,109
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	8,970,597
--	-----------

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.	13,609
--	--------

Bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(11,251,090)</u>
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Total Net Position - Governmental Activities	<u>\$ 3,835,225</u>
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The accompanying notes to the financial statements are an integral part of this report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 991,500	\$ 1,516,147
Water Service	576,334	
Wastewater Service	285,968	
Water Authority Fees	807,387	
Penalty and Interest	12,679	12,689
Miscellaneous Revenues	86,184	19,625
<b>TOTAL REVENUES</b>	<b>\$ 2,760,052</b>	<b>\$ 1,548,461</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 160,233	\$ 3,555
Contracted Services	85,070	47,588
Purchased Water Service	991,729	
Purchased Wastewater Service	358,488	
Utilities	10,786	
Repairs and Maintenance	191,332	
Depreciation		
Other	122,319	2,989
Capital Outlay	119,080	
Debt Service:		
Bond Principal		1,085,000
Bond Interest		433,456
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 2,039,037</b>	<b>\$ 1,572,588</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 721,015</b>	<b>\$ (24,127)</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b> <b>SEPTEMBER 1, 2017</b>	<b>4,657,939</b>	<b>747,282</b>
<b>FUND BALANCES/NET POSITION -</b> <b>AUGUST 31, 2018</b>	<b>\$ 5,378,954</b>	<b>\$ 723,155</b>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 2,507,647	\$ (5,553)	\$ 2,502,094
576,334		576,334
285,968		285,968
807,387		807,387
25,368	(2,484)	22,884
105,809		105,809
<u>\$ 4,308,513</u>	<u>\$ (8,037)</u>	<u>\$ 4,300,476</u>
\$ 163,788	\$ (7,065)	\$ 156,723
132,658		132,658
991,729		991,729
358,488		358,488
10,786		10,786
191,332		191,332
	374,469	374,469
125,308		125,308
119,080	(119,080)	
1,085,000	(1,085,000)	
433,456	(13,751)	419,705
<u>\$ 3,611,625</u>	<u>\$ (850,427)</u>	<u>\$ 2,761,198</u>
\$ 696,888	\$ (696,888)	\$
	1,539,278	1,539,278
<u>5,405,221</u>	<u>(3,109,274)</u>	<u>2,295,947</u>
<u>\$ 6,102,109</u>	<u>\$ (2,266,884)</u>	<u>\$ 3,835,225</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	696,888
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(5,553)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		(2,484)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(374,469)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		126,145
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		1,085,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		<u>13,751</u>
Change in Net Position - Governmental Activities	\$	<u><u>1,539,278</u></u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 364 of Harris County, Texas (the “District”) was created effective June 26, 1996, by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The District is a participant in the Harris County Municipal Utility District No. 365 (District No. 365) Regional Wastewater Treatment Plant and Water Plant (the Plants), which were formed to maintain and operate wastewater treatment and water facilities on behalf of all participants, as further described in Note 9. Complete financial information for the Plants may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027. The District is also a participant in the Harris County Municipal Utility District No. 360 (District No. 360) Regional Wastewater Treatment Plant and Water Plant (the Plants), which were formed to maintain and operate wastewater treatment and water facilities on behalf of all participants, as further described in Note 9. Complete financial information for the Plants may be obtained from Schwartz, Page & Harding, LLP, 1300 Post Oak Boulevard, Suite 1400, Houston, TX 77056.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has two governmental funds and considers each to be major funds.

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

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

Basis of Accounting

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of August 31, 2018, the General Fund owed the Debt Service Fund (Tax Account) \$422 for the over transfer of maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Water System	10-45
Wastewater System	10-45
Jogging Trails	30

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that the directors are employees for federal payroll tax purposes only.

Measurement Focus

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

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

*Nonspendable*: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

*Committed*: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

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

*Unassigned:* all other spendable amounts in the General Fund.

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

The following is a summary of transactions regarding bonds payable for the year ended August 31, 2018:

	September 1, 2017	Additions	Retirements	August 31, 2018
Bonds Payable	\$ 12,205,000	\$	\$ 1,085,000	\$ 11,120,000
Unamortized Discounts	(101,013)		(11,865)	(89,148)
Unamortized Premiums	245,854		25,616	220,238
Bonds Payable, Net	<u>\$ 12,349,841</u>	<u>\$ -0-</u>	<u>\$ 1,098,751</u>	<u>\$ 11,251,090</u>
		Amount Due Within One Year		\$ 1,100,000
		Amount Due After One Year		10,151,090
		Bonds Payable, Net		<u>\$ 11,251,090</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of August 31, 2018, the debt service requirements on the outstanding bonds were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 1,100,000	\$ 407,732	\$ 1,507,732
2020	1,145,000	379,906	1,524,906
2021	1,170,000	340,062	1,510,062
2022	1,220,000	299,281	1,519,281
2023	1,245,000	255,194	1,500,194
2024-2028	5,240,000	540,600	5,780,600
	<u>\$ 11,120,000</u>	<u>\$ 2,222,775</u>	<u>\$ 13,342,775</u>

The District's bonds payable at August 31, 2018, consists of the following:

	Series 2010 Refunding	Series 2010A
Amount Outstanding – August 31, 2018	\$1,385,000	\$1,635,000
Interest Rates	3.50%-4.00%	3.00%-4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2024	September 1, 2019/2028
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	September 1, 2018*	September 1, 2018*
	Series 2011 Refunding	Series 2012 Refunding
Amount Outstanding – August 31, 2018	\$4,175,000	\$3,925,000
Interest Rates	2.50%-4.00%	2.00%-4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2026	September 1, 2019/2027
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	September 1, 2019*	September 1, 2019*

\* Or any date thereafter, callable at par plus accrued interest to the date of redemption. The Series 2010A term bonds maturing on September 1, 2020 and 2025, are subject to mandatory redemption beginning September 1, 2019, and 2023, respectively.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of August 31, 2018, the District had authorized but unissued bonds in the amount of \$12,660,000 for water, sanitary sewer and drainage facilities and authorized but unissued bonds in the amount of \$7,630,000 for refunding purposes. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

The District levied an ad valorem debt service tax rate of \$0.275 per \$100 of assessed valuation, which resulted in a tax levy of \$1,515,173 on the adjusted taxable valuation of \$550,972,065 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

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

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$4,281,852 and the bank balance was \$4,547,156. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at August 31, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 289,692	\$ 3,379,593	\$ 3,669,285
DEBT SERVICE FUND	130,156	482,411	612,567
TOTAL DEPOSITS	\$ 419,848	\$ 3,862,004	\$ 4,281,852

Investments

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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

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

The District's investments in certificates of deposit are recorded at amortized cost. As of August 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 1,747,858	\$ 1,747,858
Certificates of Deposit	3,379,593	3,379,593
<u>DEBT SERVICE FUND</u>		
TexPool	106,227	106,227
Certificates of Deposit	482,411	482,411
<b>TOTAL INVESTMENTS</b>	<b>\$ 5,716,089</b>	<b>\$ 5,716,089</b>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2018, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Restrictions

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

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2018:

	September 1, 2017	Increases	Decreases	August 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,397,293	\$	\$	\$ 1,397,293
Construction in Progress	<u>130,863</u>	<u>126,145</u>	<u></u>	<u>257,008</u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 1,528,156</u>	<u>\$ 126,145</u>	<u>\$ - 0 -</u>	<u>\$ 1,654,301</u>
<b>Capital Assets Subject to Depreciation</b>				
Water System	\$ 4,701,081	\$	\$	\$ 4,701,081
Wastewater System	7,522,602			7,522,602
Jogging Trails	<u>975,607</u>	<u></u>	<u></u>	<u>975,607</u>
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 13,199,290</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 13,199,290</u>
<b>Accumulated Depreciation</b>				
Water System	\$ 2,176,917	\$ 138,976	\$	\$ 2,315,893
Wastewater System	3,064,231	200,904		3,265,135
Jogging Trails	<u>267,377</u>	<u>34,589</u>	<u></u>	<u>301,966</u>
<b>Total Accumulated Depreciation</b>	<u>\$ 5,508,525</u>	<u>\$ 374,469</u>	<u>\$ - 0 -</u>	<u>\$ 5,882,994</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 7,690,765</u>	<u>\$ (374,469)</u>	<u>\$ - 0 -</u>	<u>\$ 7,316,296</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 9,218,921</u>	<u>\$ (248,324)</u>	<u>\$ - 0 -</u>	<u>\$ 8,970,597</u>

**NOTE 7. MAINTENANCE TAX**

At an election held on August 10, 1996, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended August 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.18 per \$100 of assessed valuation, which resulted in a tax levy of \$991,750 on the adjusted taxable valuation of \$550,972,065 for the 2017 tax year. The maintenance tax is being used by the General Fund to pay expenditures of operating the District.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 8. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75<sup>th</sup> Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The current pumpage fee and surface water fee charged by the Authority is \$3.40 and \$3.85, respectively, per 1,000 gallons of water. The District’s share of Authority fees is included in purchased water costs.

**NOTE 9. CONTRACTS WITH OTHER DISTRICTS**

Joint Wastewater Treatment Plant and Water Plant Facilities

On October 8, 1998, the District and District No. 365 entered into an agreement whereby the District would purchase capacity in water production, wastewater treatment, and storm water control facilities owned and constructed by District No. 365. The agreement was subsequently amended and restated on August 4, 1999, April 1, 2000, April 26, 2001, February 21, 2002, and April 23, 2003. On July 1, 2004, the District and District No. 365 executed the Coles Crossing Joint Facilities Agreement. This agreement was amended on October 1, 2005, and September 1, 2009. Effective August 11, 2015, the districts entered into an interim water capacity lease agreement whereby the District leased an additional 61,000 gallons-per-day of water capacity from District No. 365. The term of the agreement is 5 years with automatic renewals on an annual basis, unless terminated. District No. 365 manages and operates the joint facilities. The participants are billed monthly for operating costs. Effective July 1, 2004, operating costs of the water and wastewater treatment plants are billed based on each District’s pro rata share of water consumption.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 9. CONTRACTS WITH OTHER DISTRICTS (Continued)**

Joint Wastewater Treatment Plant and Water Plant Facilities (Continued)

During the current fiscal year, the District incurred operating costs of \$333,642 for wastewater treatment services; \$893,179 for water services; and \$18,360, for leased water capacity. The District has also advanced \$144,013 for water plant operations and \$44,760 for wastewater treatment services as of August 31, 2018. During the current year, the District advanced an additional \$131,000 for its share of the engineering costs for the expansion of the joint wastewater treatment plant and joint water plant no. 2. The District recorded total capital costs of \$257,008 for these projects. Each participant's current ownership percentage is as follows:

Participants	Proportionate Share-Water Plant	Proportionate Share-Wastewater Treatment Plant
District No. 365	56.00%	46.40%
The District	<u>44.00</u>	<u>53.60</u>
TOTALS	<u>100.00%</u>	<u>100.00%</u>

The condensed audited financial information of the joint facilities as of and for the year ended August 31, 2017, as reflected in District No. 365's financial statements, is as follows:

	Water Plant	Wastewater Treatment Plant
Total Assets	<u>\$ 457,967</u>	<u>\$ 146,557</u>
Total Liabilities	\$ 313,954	\$ 101,797
Total Fund Balance	<u>144,013</u>	<u>44,760</u>
Total Liabilities and Fund Balance	<u>\$ 457,967</u>	<u>\$ 146,557</u>
Total Revenues	\$ 1,763,230	\$ 477,597
Total Expenditures	<u>1,763,230</u>	<u>477,597</u>
Excess Revenues Over Expenditures	\$ - 0 -	\$ - 0 -
Interfund Transfers In (Out)	<u>22,873</u>	<u>268</u>
Net Change in Fund Balances	\$ 22,873	\$ 268
Fund Balances, Beginning of Year	<u>121,140</u>	<u>44,492</u>
Fund Balances, End of Year	<u>\$ 144,013</u>	<u>\$ 44,760</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 9. CONTRACTS WITH OTHER DISTRICTS (Continued)**

Shared Facilities

On August 23, 2005, the District entered into contracts with Harris County Municipal Utility District No. 360, whereby the District agreed to purchase a portion of District No. 360's existing wastewater treatment and water facilities to service property annexed into the District's boundaries. Both the water supply and wastewater treatment contracts were amended on June 23, 2009, to clarify the manner in which the costs of capital improvements and extraordinary repairs are allocated to the participants. Under the terms of the agreement, the District pays a portion of the costs of operating the facilities. During the current fiscal year, the District incurred operating costs of \$24,846 for wastewater treatment services and \$80,190 for water services. The District has contributed a reserve of \$4,480 for the water plant operations and \$1,500 for the wastewater treatment plant operations. Each participant's current ownership percentage is shown as follows:

Participants	Proportionate Share- Water Plant	Proportionate Share- Wastewater Treatment Plant
District No. 360	93.80%	91.30%
The District	<u>6.20</u>	<u>8.70</u>
TOTALS	<u>100.00%</u>	<u>100.00%</u>

The condensed audited financial information of the joint facilities as of and for the year ended December 31, 2017, as reflected in District No. 360's financial statements, is as follows:

	Water Plant	Wastewater Treatment Plant
Total Assets	\$ 170,589	\$ 52,118
Total Liabilities	\$ 102,814	\$ 23,618
Total Fund Balance	<u>67,775</u>	<u>28,500</u>
Total Liabilities and Fund Balance	<u>\$ 170,589</u>	<u>\$ 52,118</u>
Total Revenues	\$ 1,246,372	\$ 255,901
Total Expenditures	<u>1,246,372</u>	<u>255,901</u>
Net Change in Fund Balances	\$ - 0 -	\$ - 0 -
Fund Balances, Beginning of Year	<u>67,775</u>	<u>28,500</u>
Fund Balances, End of Year	<u>\$ 67,775</u>	<u>\$ 28,500</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 10. 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 from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no settlements in the past three years.

**NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT**

Effective December 19, 2011, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston, Texas. Under the agreement, and in accordance with Subchapter F of Chapter 43 of the Local Government Code, the City has annexed a tract of land within the District for limited purposes. The District will continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibilities of the District during the term of the SPA. The City may not annex the District for full purposes during the term of this agreement. The City imposes a Sales and Use Tax within the boundaries of the District under the SPA on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under future amendments to Chapter 321 of the Tax Code. The City will pay the District an amount equal to one-half of all Sales and Use Tax revenues collected within the District within 30 days of the City receiving the funds from the State Comptroller’s office. The term of this SPA is 30 years from the effective date. During the current fiscal year, the District recorded \$10,544 in sales tax revenues, of which \$4,996 was receivable at year end.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**

**REQUIRED SUPPLEMENTARY INFORMATION**

**AUGUST 31, 2018**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 1,000,000	\$ 991,500	\$ (8,500)
Water Service	540,000	576,334	36,334
Wastewater Service	290,000	285,968	(4,032)
Water Authority Fees	650,000	807,387	157,387
Penalty and Interest	12,500	12,679	179
Miscellaneous Revenues	<u>41,000</u>	<u>86,184</u>	<u>45,184</u>
<b>TOTAL REVENUES</b>	<u>\$ 2,533,500</u>	<u>\$ 2,760,052</u>	<u>\$ 226,552</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 205,500	\$ 160,233	\$ 45,267
Contracted Services	86,300	85,070	1,230
Purchased Water Service	1,069,002	991,729	77,273
Purchased Wastewater Service	262,357	358,488	(96,131)
Utilities	10,500	10,786	(286)
Repairs and Maintenance	155,000	191,332	(36,332)
Other	148,400	122,319	26,081
Capital Outlay	<u>1,604,696</u>	<u>119,080</u>	<u>1,485,616</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,541,755</u>	<u>\$ 2,039,037</u>	<u>\$ 1,502,718</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (1,008,255)	\$ 721,015	\$ 1,729,270
<b>FUND BALANCE - SEPTEMBER 1, 2017</b>	<u>4,657,939</u>	<u>4,657,939</u>	<u>_____</u>
<b>FUND BALANCE - AUGUST 31, 2018</b>	<u>\$ 3,649,684</u>	<u>\$ 5,378,954</u>	<u>\$ 1,729,270</u>

See accompanying independent auditor's report.



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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE  
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**AUGUST 31, 2018**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

**1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:**

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order approved December 18, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 9.00	5,000	N	\$1.00	5,001 to 7,500
				\$1.50	7,501 to 10,000
				\$2.00	10,001 to 15,000
				\$3.00	15,001 to 20,000
				\$3.75	20,001 to 25,000
				\$4.50	25,001 to 30,000
				\$5.00	30,001 and up
WASTEWATER:	\$11.00		Y		
SURCHARGE:					
Regional Water Authority Fees	\$ 3.40 per 1,000 gallons				

District employs winter averaging for wastewater usage?          X    
Yes                      No

Total monthly charges per 10,000 gallons usage: Water: \$15.25 Wastewater: \$11.00 Surcharge: \$34.00

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	1,322	1,318	x 1.0	1,318
1"	486	485	x 2.5	1,213
1½"	4	4	x 5.0	20
2"	19	19	x 8.0	152
3"	1	1	x 15.0	15
4"			x 25.0	
6"			x 50.0	
8"	2	2	x 80.0	160
10"			x 115.0	
Total Water Connections	<u>1,834</u>	<u>1,829</u>		<u>2,878</u>
Total Wastewater Connections	<u>1,797</u>	<u>1,793</u>	x 1.0	<u>1,793</u>

**3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)**

Gallons pumped into system:	256,571,000	Water Accountability Ratio: 100% (Gallons billed/Gallons pumped)
Gallons billed to customers:	256,571,000	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

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

Does the District have Debt Service standby fees? Yes  No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes  No

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely  Partly  Not at all

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

Entirely  Partly  Not at all

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes  No

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

PROFESSIONAL FEES:	
Auditing	\$ 15,750
Engineering	55,842
Legal	88,641
TOTAL PROFESSIONAL FEES	<u>\$ 160,233</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 991,729
Purchased Wastewater Service	358,488
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,350,217</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 20,609
Operations and Billing	64,461
TOTAL CONTRACTED SERVICES	<u>\$ 85,070</u>
UTILITIES	<u>\$ 10,786</u>
REPAIRS AND MAINTENANCE	<u>\$ 191,332</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 10,650
Election	4,468
Insurance	6,239
Office Supplies and Postage	53,952
Travel and Meetings	7,287
Other	16,346
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 98,942</u>
CAPITAL OUTLAY	<u>\$ 119,080</u>
TAP CONNECTIONS	<u>\$ 3,865</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 7,743
Permit Fees	5,091
Inspection/Reconnection Fees	2,620
Regulatory Assessment	4,058
TOTAL OTHER EXPENDITURES	<u>\$ 19,512</u>
TOTAL EXPENDITURES	<u>\$ 2,039,037</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**INVESTMENTS**  
**AUGUST 31, 2018**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b><u>GENERAL FUND</u></b>					
TexPool	XXXX0002	Varies	Daily	\$ 1,747,858	\$
Certificate of Deposit	XXXX5534	1.10%	09/22/18	206,880	2,138
Certificate of Deposit	XXXX5315	1.10%	10/25/18	247,944	2,316
Certificate of Deposit	XXXX0533	1.25%	11/05/18	245,000	2,509
Certificate of Deposit	XXXX3960	1.98%	05/10/19	240,000	1,862
Certificate of Deposit	XXXX8264	2.00%	04/10/19	240,000	1,881
Certificate of Deposit	XXXX2681	2.00%	04/17/19	240,000	1,788
Certificate of Deposit	XXXX5993	1.85%	10/16/18	375,000	2,585
Certificate of Deposit	XXXX7977	1.30%	02/11/19	246,229	1,763
Certificate of Deposit	XXXX5580	2.10%	03/17/19	242,799	2,333
Certificate of Deposit	XXXX0415	1.95%	04/18/19	244,295	1,762
Certificate of Deposit	XXXX1311	2.32%	07/01/19	103,145	400
Certificate of Deposit	XXXX6556	2.38%	07/15/19	506,390	1,618
Certificate of Deposit	XXXX2372	2.15%	02/07/19	241,911	313
TOTAL GENERAL FUND				<u>\$ 5,127,451</u>	<u>\$ 23,268</u>
<b><u>DEBT SERVICE FUND</u></b>					
TexPool	XXXX0001	Varies	Daily	\$ 106,227	\$
Certificate of Deposit	XXXX2889	1.93%	03/22/19	240,000	2,056
Certificate of Deposit	XXXX0395	1.75%	03/22/19	242,411	1,883
TOTAL DEBT SERVICE FUND				<u>\$ 588,638</u>	<u>\$ 3,939</u>
TOTAL - ALL FUNDS				<u>\$ 5,716,089</u>	<u>\$ 27,207</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
SEPTEMBER 1, 2017	\$	6,294	\$	11,073
Adjustments to Beginning				
Balance		<u>(1,913)</u>	\$	4,381
			<u>(2,916)</u>	\$
				8,157
Original 2017 Tax Levy	\$	961,128	\$	1,468,390
Adjustment to 2017 Tax Levy		<u>30,622</u>	<u>991,750</u>	<u>46,783</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	996,131	\$
				1,523,330
TAX COLLECTIONS:				
Prior Years	\$	3,398	\$	6,548
Current Year		<u>988,102</u>	<u>991,500</u>	<u>1,509,599</u>
				<u>1,516,147</u>
TAXES RECEIVABLE -				
AUGUST 31, 2018		<u>\$</u>	<u>4,631</u>	<u>\$</u>
				<u>7,183</u>
TAXES RECEIVABLE BY				
YEAR:				
2017	\$	3,648	\$	5,574
2016		700		1,069
2015		131		231
2014		135		250
2009		<u>17</u>		<u>59</u>
TOTAL		<u>\$</u>	<u>4,631</u>	<u>\$</u>
				<u>7,183</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PROPERTY VALUATIONS:				
Land	\$ 93,745,740	\$ 92,673,701	\$ 92,534,264	\$ 94,758,031
Improvements	473,911,737	482,275,698	475,885,722	429,228,007
Personal Property	4,075,159	5,416,558	7,851,937	6,472,076
Exemptions	<u>(20,760,571)</u>	<u>(26,556,250)</u>	<u>(41,142,956)</u>	<u>(39,430,232)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 550,972,065</u>	<u>\$ 553,809,707</u>	<u>\$ 535,128,967</u>	<u>\$ 491,027,882</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.275	\$ 0.275	\$ 0.290	\$ 0.315
Maintenance	<u>0.180</u>	<u>0.180</u>	<u>0.165</u>	<u>0.170</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.455</u>	<u>\$ 0.455</u>	<u>\$ 0.455</u>	<u>\$ 0.485</u>
ADJUSTED TAX LEVY*	<u>\$ 2,506,923</u>	<u>\$ 2,519,834</u>	<u>\$ 2,434,837</u>	<u>\$ 2,381,486</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.63 %</u>	<u>99.93 %</u>	<u>99.99 %</u>	<u>99.98 %</u>

\* Based upon adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on August 10, 1996.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2018**

SERIES - 2010 REFUNDING

Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 205,000	\$ 51,832	\$ 256,832
2020	215,000	44,656	259,656
2021	225,000	36,862	261,862
2022	235,000	28,706	263,706
2023	245,000	19,894	264,894
2024	260,000	10,400	270,400
2025			
2026			
2027			
2028			
	<u>\$ 1,385,000</u>	<u>\$ 192,350</u>	<u>\$ 1,577,350</u>

The District pays the amount due September 1 prior to that date. This schedule shows the amounts due within the fiscal years, assuming this practice will continue in the future.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2018**

S E R I E S - 2 0 1 0 A			
Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 50,000	\$ 63,650	\$ 113,650
2020	50,000	62,150	112,150
2021	50,000	60,650	110,650
2022	50,000	59,025	109,025
2023	50,000	57,400	107,400
2024	50,000	55,400	105,400
2025	200,000	53,400	253,400
2026	300,000	45,400	345,400
2027	400,000	33,400	433,400
2028	435,000	17,400	452,400
	\$ 1,635,000	\$ 507,875	\$ 2,142,875

The District pays the amount due September 1 prior to that date. This schedule shows the amounts due within the fiscal years, assuming this practice will continue in the future.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2018**

SERIES - 2011 REFUNDING

Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 450,000	\$ 143,150	\$ 593,150
2020	465,000	131,900	596,900
2021	480,000	117,950	597,950
2022	500,000	103,550	603,550
2023	520,000	87,300	607,300
2024	550,000	70,400	620,400
2025	695,000	48,400	743,400
2026	515,000	20,600	535,600
2027			
2028			
	<u>\$ 4,175,000</u>	<u>\$ 723,250</u>	<u>\$ 4,898,250</u>

The District pays the amount due September 1 prior to that date. This schedule shows the amounts due within the fiscal years, assuming this practice will continue in the future.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2018**

SERIES - 2012 REFUNDING

Due During Fiscal Years Ending August 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 395,000	\$ 149,100	\$ 544,100
2020	415,000	141,200	556,200
2021	415,000	124,600	539,600
2022	435,000	108,000	543,000
2023	430,000	90,600	520,600
2024	425,000	73,400	498,400
2025	475,000	56,400	531,400
2026	470,000	37,400	507,400
2027	465,000	18,600	483,600
2028			
	<u>\$ 3,925,000</u>	<u>\$ 799,300</u>	<u>\$ 4,724,300</u>

The District pays the amount due September 1 prior to that date. This schedule shows the amounts due within the fiscal years, assuming this practice will continue in the future.

See accompanying independent auditor's report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**AUGUST 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending August 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 1,100,000	\$ 407,732	\$ 1,507,732
2020	1,145,000	379,906	1,524,906
2021	1,170,000	340,062	1,510,062
2022	1,220,000	299,281	1,519,281
2023	1,245,000	255,194	1,500,194
2024	1,285,000	209,600	1,494,600
2025	1,370,000	158,200	1,528,200
2026	1,285,000	103,400	1,388,400
2027	865,000	52,000	917,000
2028	435,000	17,400	452,400
	<u>\$ 11,120,000</u>	<u>\$ 2,222,775</u>	<u>\$ 13,342,775</u>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**CHANGES IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding September 1, 2017
Harris County Municipal Utility District No. 364 Unlimited Tax Refunding Bonds - Series 2010	\$ 2,775,000	\$ 1,580,000
Harris County Municipal Utility District No. 364 Unlimited Tax Bonds - Series 2010A	1,985,000	1,685,000
Harris County Municipal Utility District No. 364 Unlimited Tax Refunding Bonds - Series 2011	6,685,000	4,610,000
Harris County Municipal Utility District No. 364 Unlimited Tax Refunding Bonds - Series 2012	<u>5,950,000</u>	<u>4,330,000</u>
<b>TOTAL</b>	<u><u>\$ 17,395,000</u></u>	<u><u>\$ 12,205,000</u></u>
<b>Bond Authority:</b>	<u><b>Tax Bonds</b></u>	<u><b>Refunding Bonds</b></u>
Amount Authorized by Voters	\$ 38,400,000	\$ 23,040,000
Amount Issued	<u>25,740,000</u>	<u>15,410,000</u>
Remaining to be Issued	<u><u>\$ 12,660,000</u></u>	<u><u>\$ 7,630,000</u></u>
Debt Service Fund cash and investment balances as of August 31, 2018:		<u><u>\$ 718,794</u></u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><u>\$ 1,334,278</u></u>

See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding August 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 195,000	\$ 58,169	\$ 1,385,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	50,000	65,150	1,635,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	435,000	152,937	4,175,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	<u>405,000</u>	<u>157,200</u>	<u>3,925,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 1,085,000</u>	<u>\$ 433,456</u>	<u>\$ 11,120,000</u>	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 991,500	\$ 992,533	\$ 877,809
Water Service	576,334	537,637	518,480
Wastewater Service	285,968	289,295	317,871
Water Authority Fees	807,387	687,040	569,751
Penalty and Interest	12,679	14,071	12,540
Miscellaneous Revenues	86,184	108,780	34,944
<b>TOTAL REVENUES</b>	<b>\$ 2,760,052</b>	<b>\$ 2,629,356</b>	<b>\$ 2,331,395</b>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 160,233	\$ 160,511	\$ 144,672
Contracted Services	85,070	85,745	83,344
Purchased Services	1,350,217	1,231,164	1,114,205
Repairs and Maintenance	191,332	149,841	144,312
Other	133,105	152,129	117,991
Capital Outlay	119,080	125,557	
Debt Service			
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,039,037</b>	<b>\$ 1,904,947</b>	<b>\$ 1,604,524</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 721,015</b>	<b>\$ 724,409</b>	<b>\$ 726,871</b>
<b>BEGINNING FUND BALANCE</b>	<b>4,657,939</b>	<b>3,933,530</b>	<b>3,206,659</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 5,378,954</b>	<b>\$ 4,657,939</b>	<b>\$ 3,933,530</b>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 833,849	\$ 687,236	35.9 %	37.8 %	37.7 %	37.4 %	31.6 %
542,805	545,671	20.9	20.5	22.3	24.4	25.1
286,269	297,535	10.4	11.0	13.6	12.8	13.7
515,197	513,495	29.2	26.1	24.4	23.1	23.6
11,957	13,188	0.5	0.5	0.5	0.5	0.6
38,883	116,582	3.1	4.1	1.5	1.8	5.4
<u>\$ 2,228,960</u>	<u>\$ 2,173,707</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 157,854	\$ 138,435	5.8 %	6.1 %	6.2 %	7.1 %	6.4 %
85,448	82,959	3.1	3.3	3.6	3.8	3.8
1,029,394	1,026,448	49.0	46.8	47.8	46.2	47.2
143,407	193,134	6.9	5.7	6.2	6.4	8.9
134,234	135,656	4.8	5.8	5.0	6.0	6.2
	2,100,000	4.3	4.8			96.6
<u>\$ 1,550,337</u>	<u>\$ 3,676,632</u>	<u>73.9 %</u>	<u>72.5 %</u>	<u>68.8 %</u>	<u>69.5 %</u>	<u>169.1 %</u>
\$ 678,623	\$ (1,502,925)	<u>26.1 %</u>	<u>27.5 %</u>	<u>31.2 %</u>	<u>30.5 %</u>	<u>(69.1) %</u>
<u>2,528,036</u>	<u>4,030,961</u>					
<u>\$ 3,206,659</u>	<u>\$ 2,528,036</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 1,516,147	\$ 1,516,485	\$ 1,542,796
Penalty and Interest	12,689	12,454	10,622
Miscellaneous Revenues	19,625	6,433	4,378
<b>TOTAL REVENUES</b>	<b>\$ 1,548,461</b>	<b>\$ 1,535,372</b>	<b>\$ 1,557,796</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 52,882	\$ 55,579	\$ 48,235
Debt Service Principal	1,085,000	1,075,000	1,045,000
Debt Service Interest and Fees	434,706	459,856	483,769
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,572,588</b>	<b>\$ 1,590,435</b>	<b>\$ 1,577,004</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (24,127)</b>	<b>\$ (55,063)</b>	<b>\$ (19,208)</b>
<b>BEGINNING FUND BALANCE</b>	<b>747,282</b>	<b>802,345</b>	<b>821,553</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 723,155</b>	<b>\$ 747,282</b>	<b>\$ 802,345</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,829</b>	<b>1,829</b>	<b>1,829</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,793</b>	<b>1,792</b>	<b>1,786</b>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 1,546,021	\$ 1,531,566	97.9 %	98.8 %	99.0 %	99.0 %	98.8 %
11,823	13,396	0.8	0.8	0.7	0.8	0.9
4,085	5,889	1.3	0.4	0.3	0.2	0.3
<u>\$ 1,561,929</u>	<u>\$ 1,550,851</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 50,172	\$ 47,469	3.4 %	3.6 %	3.1 %	3.2 %	3.1 %
1,015,000	1,095,000	70.1	70.0	67.1	65.0	70.6
503,006	615,956	28.1	29.9	31.0	32.2	39.7
<u>\$ 1,568,178</u>	<u>\$ 1,758,425</u>	<u>101.6 %</u>	<u>103.5 %</u>	<u>101.2 %</u>	<u>100.4 %</u>	<u>113.4 %</u>
\$ (6,249)	\$ (207,574)	<u>(1.6) %</u>	<u>(3.5) %</u>	<u>(1.2) %</u>	<u>(0.4) %</u>	<u>(13.4) %</u>
<u>827,802</u>	<u>1,035,376</u>					
<u>\$ 821,553</u>	<u>\$ 827,802</u>					
<u>1,822</u>	<u>1,822</u>					
<u>1,787</u>	<u>1,788</u>					

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**AUGUST 31, 2018**

District Mailing Address - Harris County Municipal Utility District No. 364  
c/o Radcliffe Bobbitt Adams Polley PLLC  
2929 Allen Parkway, Suite 3450  
Houston, TX 77019-7120

District Telephone Number - (713) 237-1221

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of office for the year ended August 31, 2018	Expense reimbursements for the year ended August 31, 2018	Title
Vince DeAngelis	11/16 - 11/20 (Elected)	\$ 2,100	\$ -0-	President
Dale R. Trevino	11/14 - 11/18 (Elected)	\$ 2,250	\$ 1,328	Vice President
Ross Alan Crawford	11/16 - 11/20 (Elected)	\$ 2,400	\$ 1,076	Secretary/ Investment Officer
Lucinda A. Henrichson	08/18 - 11/18 (Appointed)	\$ -0-	\$ -0-	Assistant Secretary
Erin Corken	11/16 - 11/20 (Elected)	\$ 2,850	\$ 2,545	Director
William Alan Beard	11/14 - 07/18 (Resigned)	\$ 1,650	\$ 559	Former Secretary/ Investment Officer

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants. Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): August 29, 2018. The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 20, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**AUGUST 31, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended August 31, 2018</u>	<u>Title</u>
Radcliffe Bobbitt Adams Polley PLLC	07/16/03	\$ 93,109	General Counsel
McCall Gibson Swedlund Barfoot PLLC	08/28/07	\$ 15,750	Auditor
Myrtle Cruz, Inc.	06/22/04	\$ 23,135	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	12/13/00	\$ 2,955	Delinquent Tax Attorney
Van De Wiele & Vogler, Inc.	05/24/16	\$ 55,842	Engineer
Hilltop Securities, Inc.	08/20/96	\$ 3,500	Prior Financial Advisor
Masterson Advisors LLC	05/22/18	\$ -0-	Financial Advisor
Bob Leared, RTA	06/01/12	\$ 25,087	Tax Assessor/ Collector
Municipal Operations & Consulting, Inc.	06/01/12	\$ 312,381	Operator

See accompanying independent auditor's report.





**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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