

**OFFICIAL STATEMENT DATED JUNE 25, 2019**

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

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS.”

**NEW ISSUE-Book-Entry Only**

Insured Ratings (AGM): S&P “AA” (stable outlook)  
 Moody’s “A2” (stable outlook)  
 Underlying Rating: Moody’s “A2”  
 See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

**\$7,300,000**  
**SPRING CREEK UTILITY DISTRICT**  
*(A political subdivision of the State of Texas located within Montgomery County)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2019**

**Dated: July 1, 2019**

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

Principal of the bonds described above (the “Bonds”) will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent/Registrar,” “Paying Agent” or “Registrar”) in Dallas, Texas. Interest on the Bonds will accrue from July 1, 2019 and be payable on October 1, 2019 (three months of interest) and on each April 1 and October 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued only in fully registered form in \$5,000 denominations or integral multiples thereof. The Bonds are subject to redemption prior to 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.

**MATURITY SCHEDULE**

Due (Oct. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Due (Oct. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2020	\$ 50,000	3.000%	1.770%	849520 UG4	2028	\$ 495,000 (c)	2.000%	2.400%	849520 UQ2
2021	205,000	3.000	1.790	849520 UH2	2029	505,000 (c)	2.250	2.610	849520 UR0
2022	200,000	3.000	1.850	849520 UJ8	2030	495,000 (c)	3.000	2.850	849520 US8
2023	425,000	3.000	1.890	849520 UK5	2031	785,000 (c)	3.000	2.900	849520 UT6
2024	445,000	3.000	1.950	849520 UL3	2032	775,000 (c)	3.000	2.940	849520 UU3
2025	445,000	3.000	2.030	849520 UM1	2033	760,000 (c)	3.000	3.000	849520 UV1
2026	485,000 (c)	2.000	2.160	849520 UN9	2034	750,000 (c)	3.000	3.030	849520 UW9
2027	480,000 (c)	2.000	2.270	849520 UP4					

(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) Bonds maturing on and after October 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on October 1, 2025, 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 Spring Creek Utility District (the “District”) and will be payable from the proceeds of an 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, Montgomery County, the City of Houston, or any entity other than the District. The Bonds are subject to special investment risks 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 Bonds by the Attorney General of Texas and the approval of certain legal matters by Roach & Mitchell, PLLC, Bond Counsel. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton L.L.P. Houston, Texas, as Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about July 25, 2019.

**TABLE OF CONTENTS**

MATURITY SCHEDULE..... 1  
USE OF INFORMATION IN OFFICIAL STATEMENT..... 2  
OFFICIAL STATEMENT SUMMARY..... 3  
SELECTED FINANCIAL INFORMATION..... 7  
PLAN OF FINANCING..... 8  
DEBT SERVICE REQUIREMENTS..... 10  
THE BONDS..... 11  
BOOK-ENTRY-ONLY SYSTEM..... 15  
THE DISTRICT..... 17  
MANAGEMENT..... 19  
THE DEVELOPERS..... 20  
THE SYSTEM..... 20  
FINANCIAL STATEMENT..... 23  
ESTIMATED OVERLAPPING DEBT AND TAX RATE STATEMENTS..... 24  
TAX DATA..... 25  
TAX PROCEDURES..... 27  
WATER AND SEWER OPERATIONS..... 32  
INVESTMENT CONSIDERATIONS..... 33  
LEGAL MATTERS..... 38  
TAX MATTERS..... 39  
MUNICIPAL BOND RATING..... 42  
MUNICIPAL BOND INSURANCE..... 42  
VERIFICATION OF MATHEMATICAL CALCULATIONS..... 44  
SALE AND DISTRIBUTION OF THE BONDS..... 44  
PREPARATION OF OFFICIAL STATEMENT..... 44  
CONTINUING DISCLOSURE OF INFORMATION..... 46  
MISCELLANEOUS..... 47  
  
FINANCIAL STATEMENT OF THE DISTRICT FOR FISCAL YEAR ENDED APRIL 30, 2018.....APPENDIX A  
SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....APPENDIX B

**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 Roach & Mitchell, PLLC, 2800 Post Oak Boulevard, Suite 4100, Houston, Texas 77056 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 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."

## 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* ..... Spring Creek Utility District (the “District”), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See “THE DISTRICT.”

*The Issue* ..... \$7,300,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) are issued pursuant to an order (the “Bond Order”) of the District’s Board of Directors authorizing the issuance of the Bonds. The Bonds will be issued as fully registered bonds maturing in the years and in the amounts and paying interest at the rates shown on the cover hereof. Interest on the Bonds accrues from July 1, 2019 and is payable on October 1, 2019 (three months of interest), and on each April 1 and October 1 thereafter until the earlier of maturity or prior redemption. See “THE BONDS.”

The Bonds maturing on and after October 1, 2026, are subject to redemption, in whole or from time to time in part, at the option of the District, prior to their maturity dates, on October 1, 2025, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See “THE BONDS.”

*Source of and Security For Payment* ..... The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “TAX PROCEDURES.” The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City of Houston, or any other political subdivision or agency other than the District. See “THE BONDS—Source of and Security for Payment.”

*Authority for Issuance* ..... The Bonds are the first series of bonds issued out of an aggregate of \$140,000,000 principal amount of unlimited tax refunding bonds authorized by the District’s voters at an election held on May 4, 2019, for the purpose of refunding outstanding bonds of the District. The Bonds are authorized by the District pursuant such election and the terms and conditions of the Bond Order, 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, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

*Payment Record* ..... The District has previously issued eight series of waterworks and sewer system combination unlimited tax and revenue bonds, six series of unlimited tax refunding bonds and five series of unlimited tax bonds, of which \$57,980,000 principal amount remains outstanding as of June 1, 2019 (the “Outstanding Bonds”). The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.

*Use of Proceeds* ..... Proceeds from the sale of the Bonds, together with any other lawfully available funds of the District, will be used to currently refund and defease \$7,050,000 of the District’s Outstanding Bonds 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 the issuance of the Bonds, \$50,930,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”) and the total outstanding debt of the District will be \$58,230,000. See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

*Qualified Tax-Exempt Obligations* ..... The Bonds have been designated as “qualified tax-exempt obligations” for financial institutions. 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”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, 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”). Moody’s has also assigned an underlying rating of “A2” to the Bonds. An explanation of their ratings may be obtained from S&P or Moody’s. 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> .....	Roach & Mitchell, PLLC, Houston, Texas. See “MANAGEMENT,” “LEGAL MATTERS,” and “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, Minneapolis, 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 the District’s Operator (as defined herein), the District’s System (as defined herein) sustained no material damage and there was no interruption of District water and sewer service as a result of Hurricane Harvey. According to the District’s operator and Engineer, approximately 200 homes (approximately 6%) within the District experienced structural flooding or other material damage.

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—Recent Extreme Weather Events; Hurricane Harvey.”

## THE DISTRICT

*Description*..... The District is a political subdivision of the State of Texas, created by Acts of the 62nd Legislature of the State of Texas, Regular Session, 1971, and operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended. The District is located in southern Montgomery County approximately 25 miles north of downtown Houston. The District lies approximately three miles east of Interstate Highway 45 (“IH 45”) and is bisected by Rayford Road and bounded on the south-southeast by Riley-Fuzzel Road (now the Grand Parkway Tollroad). There are two tollroad metered exits/entrances within the District. The District contains approximately 1,049 acres and is wholly within the extraterritorial jurisdiction of the City of Houston. See “THE DISTRICT.”

*Status of Development*..... Water, sanitary sewer and drainage facilities, as well as street paving, are complete to serve Fox Run Sections 1 through 12, Legends Run, Sections 1 through 13, Spring Creek Pines, Forest Village, Sections 1 through 10, and Lockeridge Farms, Section 1 (709 acres developed into 3,881 single family residential lots) As of May 20, 2019, the District contained 3,503 occupied single-family connections, 35 vacant single-family connections, 24 builder connections and 319 vacant developed lots. New home construction in the District is presently being conducted by Lakeridge Builders, with homes selling within the \$170,000 to \$220,000 price range. The average home value in the District for tax year 2018 was \$128,740.

Commercial development in the District includes a self-storage facility, three convenience stores/gas stations, and a fast food restaurant on approximately 23 acres of land. A 267,000 square foot Wal-Mart, a CVS Pharmacy, an AT&T store, a UPS store, a Whataburger, a Bank of America, a Regions Bank, a Pollo Loco, a Starbucks, a State Farm Insurance agency, a Today’s Vision, a Mattress Firm, a Marco’s Pizza and a Pet Supply Plus have been constructed on a portion of a 29-acre tract that has been developed as Rayford Crossing. A 125,000 square foot Kroger grocery store and ancillary retail establishments, including a PetsMart, Sprint Store, a Chipotle, a Spring Creek BBQ, a Fajita Pete’s, a Woodson’s Pub & Grill, A First Financial Bank, Marble Slab Creamery, SalonStudios, Memorial Hermann Healthcare Center, and a restaurant have been constructed on a 25-acre tract being marketed as Birnham Woods Marketplace. In addition, a gas station, self-storage facility, day care facility, Chick Fil-A, Taco Bell, Popeye’s, an auto supply store, and various other retail establishments have been constructed on an approximately 10-acre site marketed as Birnham Woods Crossing. In addition, Regal Cinemas Inc. owns approximately 14 acres of land in the District which an approximately 138,700 sf building consisting of a movie theater, fast food, bar, and fine dining restaurant is being constructed.

The District also contains a church located on approximately 8 acres which is not subject to taxation, and a Conroe Independent School District flex school constructed on approximately 22 acres, which is not subject to taxation. There is a Montgomery County Emergency Service District No. 8 fire station located on approximately 4 acres in the District and a pool/fitness complex located on an additional 8 acres within the District. In addition, the District contains approximately 197 acres of land in rights-of-way, easements, drainage channels, parks and open spaces, District plant sites, and recreational areas.

*Developers*..... Recent single-family development has been conducted by Woodmere Development Company, Ltd (“Woodmere”), a Texas limited partnership, which is developing Forest Village. Woodmere's general partner is Woodmere GP, LLC. Woodmere presently owns approximately 39 acres of undeveloped land in the District, a portion of which is undevelopable.

Parkway Rayford 42, LP (“PR42”), a Texas limited partnership, through its affiliate Willmann Development Company, LLC developed approximately 29 acres in the District known as Rayford Crossing into multiple commercial/retail sites, all but one of which have subsequently been sold to various other parties including Walmart. PR42 currently owns approximately one acre of land in the District upon which quick serve restaurant has been built.

Birnham Woods Crossing LLC (“Birnham Woods”), a Texas limited liability corporation, owns approximately 13 acres of land in the District upon which a portion of the Birnham Woods Marketplace has been constructed.

Kroger Texas LP owns approximately 12 acres of land in the District upon which a 125,000 square foot Kroger Marketplace has been constructed as a part of the Birnham Woods Marketplace retail development.

See “THE DEVELOPERS.”

### **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.....	\$568,458,723 (a)
2019 Preliminary Taxable Assessed Valuation.....	\$636,423,921 (b)
Gross Direct Debt Outstanding .....	\$58,230,000 (c)
Ratios of Gross Direct Debt to:	
2018 Certified Taxable Assessed Valuation .....	10.24%
2019 Preliminary Taxable Assessed Valuation .....	9.15%
2018 Tax Rate:	
Debt Service.....	\$0.72
Maintenance and Operations.....	<u>0.28</u>
Total.....	\$1.00/\$100 A.V.
Average percentage of total tax collections (2014-2018) .....	99.16%
Average Annual Debt Service Requirement (2019-2043) of the Bonds and the Remaining Outstanding Bonds ("Average Annual Requirement").....	\$3,397,512 (d)
Tax rate required to pay Average Annual Requirement based upon:	
2018 Certified Taxable Assessed Valuation at a 95% collection rate .....	\$0.63 (e)
2019 Preliminary Taxable Assessed Valuation at a 95% collection rate .....	\$0.57 (e)
Maximum Annual Debt Service Requirement (2020) of the Bonds and the Remaining Outstanding Bonds ("Maximum Annual Requirement").....	\$4,024,928 (d)
Tax rate required to pay Maximum Annual Requirement based upon:	
2018 Certified Taxable Assessed Valuation at a 95% collection rate .....	\$0.75 (e)
2019 Preliminary Taxable Assessed Valuation at a 95% collection rate .....	\$0.67 (e)
Connection Count as of May 20, 2019 (f):	
Single-family residential – completed and occupied.....	3,503
Single-family residential – completed and unoccupied.....	35
Single-family residential – under construction.....	24
Commercial.....	50
Other .....	<u>16</u>
Total.....	3,628

Estimated 2019 population —12,260 (g)

- (a) As certified by the Montgomery Central 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. No tax will be levied on such amount until it is certified in the fall of 2019. See "TAX PROCEDURES."
- (c) After the issuance of the Bonds and excludes the Refunded Bonds. See "FINANCIAL STATEMENT—Outstanding Bonds."
- (d) See "DEBT SERVICE REQUIREMENTS."
- (e) See "TAX DATA—Tax Adequacy for Debt Service."
- (f) See "THE DISTRICT—Status of Development"
- (g) Based upon 3.5 persons per occupied single-family connection.

**OFFICIAL STATEMENT**

**\$7,300,000**

**SPRING CREEK UTILITY DISTRICT**

*(A political subdivision of the State of Texas located within Montgomery County)*

**UNLIMITED TAX REFUNDING BONDS  
SERIES 2019**

This Official Statement provides certain information in connection with the issuance by Spring Creek Utility District (the "District") of its \$7,300,000 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 an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, 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 the District upon payment of the costs of duplication therefor.

**PLAN OF FINANCING**

**Purpose**

The proceeds of the Bonds, together with any other lawfully available funds of the District, will be used to currently refund and defease outstanding portions of the District's original issue of \$8,025,000 Unlimited Tax Bonds, Series 2010 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" below. A total of \$50,930,000 in principal amount of the District's Outstanding Bonds will remain outstanding after the issuance of the 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	Series
Oct. 1	2010
2021	\$ 150,000 (a)
2022	150,000 (a)
2023	375,000 (b)
2024	400,000 (b)
2025	400,000 (c)
2026	450,000 (c)
2027	450,000 (d)
2028	475,000 (d)
2029	500,000 (e)
2030	500,000 (e)
2031	800,000 (e)
2032	800,000 (f)
2033	800,000 (f)
2034	800,000 (f)
	<u>\$ 7,050,000</u>

Redemption Date: October 1, 2019

- (a) Represents term bonds in the total principal amount of \$300,000, scheduled to mature on October 1, 2022.
- (b) Represents term bonds in the total principal amount of \$775,000, scheduled to mature on October 1, 2024.
- (c) Represents term bonds in the total principal amount of \$850,000, scheduled to mature on October 1, 2028.
- (d) Represents term bonds in the total principal amount of \$925,000, scheduled to mature on October 1, 2028.
- (e) Represents term bonds in the total principal amount of \$1,800,000, scheduled to mature on October 1, 2031.
- (f) Represents term bonds in the total principal amount of \$2,400,000, scheduled to mature on October 1, 2034.



**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds .....	\$7,300,000.00
Plus: Net Premium on the Bonds .....	41,025.70
Plus: Transfer from Debt Service Fund .....	<u>113,000.00</u>
Total Sources of Funds.....	\$7,454,025.70
Uses of Funds:	
Deposit to Escrow Agent for Refunded Bonds .....	\$7,185,040.53
Issuance Expenses and Underwriters' Discount (a).....	<u>268,985.17</u>
Total Uses of Funds .....	\$7,454,025.70

(a) Includes municipal bond insurance premium.

**Escrow Agreement and Defeasance of Refunded Bonds**

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 Company, N.A. as escrow agent (the "Escrow Agent").

The Bond Order 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 Order 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 Obligations"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, or other securities authorized by Chapter 1207, Texas Government Code, the Escrow Agent and the Underwriter that the Escrowed Obligations 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 Obligations 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 order 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.

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$7,050,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding	Less: Debt	Plus: Debt Service on the Bonds			Total
	Bonds Debt Service Requirements	Service on the Refunded Bonds	Principal	Interest	Total	Debt Service Requirements
2019	\$ 4,093,438	\$ 155,063		\$ 50,153	\$ 50,153	\$ 3,988,528
2020	4,084,440	310,125	\$ 50,000	200,613	250,613	4,024,928
2021	4,035,725	460,125	205,000	199,113	404,113	3,979,713
2022	3,988,150	453,750	200,000	192,963	392,963	3,927,363
2023	3,965,475	672,375	425,000	186,963	611,963	3,905,063
2024	3,957,538	681,438	445,000	174,213	619,213	3,895,313
2025	3,919,856	664,438	445,000	160,863	605,863	3,861,281
2026	3,888,219	697,438	485,000	147,513	632,513	3,823,294
2027	3,878,863	678,313	480,000	137,813	617,813	3,818,363
2028	3,830,619	684,188	495,000	128,213	623,213	3,769,644
2029	3,804,800	689,000	505,000	118,313	623,313	3,739,113
2030	3,785,669	666,500	495,000	106,950	601,950	3,721,119
2031	3,748,688	944,000	785,000	92,100	877,100	3,681,788
2032	3,737,038	908,000	775,000	68,550	843,550	3,672,588
2033	3,737,131	872,000	760,000	45,300	805,300	3,670,431
2034	3,769,250	836,000	750,000	22,500	772,500	3,705,750
2035	3,762,750	-	-	-	-	3,762,750
2036	3,757,531	-	-	-	-	3,757,531
2037	3,771,813	-	-	-	-	3,771,813
2038	3,780,000	-	-	-	-	3,780,000
2039	3,782,625	-	-	-	-	3,782,625
2040	1,460,250	-	-	-	-	1,460,250
2041	1,438,813	-	-	-	-	1,438,813
2042	1,016,500	-	-	-	-	1,016,500
2043	983,250	-	-	-	-	983,250
<b>Total</b>	<b>\$ 85,978,428</b>	<b>\$ 10,372,750</b>	<b>\$ 7,300,000</b>	<b>\$ 2,032,128</b>	<b>\$ 9,332,128</b>	<b>\$ 84,937,806</b>

Average Annual Debt Service Requirements (2019-2043) .....\$3,397,512  
 Maximum Annual Debt Service Requirements (2020) .....\$4,024,928

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from July 1, 2019, with interest payable each October 1 and April 1 (each an “Interest Payment Date”), beginning October 1, 2019, 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 Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. 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 (the “Registered Owner”) as of the close of business on the March 15 or September 15 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 Order.

### **Authority for Issuance**

At multiple bond elections held within the District, the voters of the District authorized the issuance of a total of \$144,000,000 principal amount of unlimited tax refunding bonds. After the issuance of the Bonds, \$139,800,692 principal amount of authorized and unissued unlimited tax refunding bonds will remain from such authorization. See “Issuance of Additional Debt” below.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, 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. See “LEGAL MATTERS—Legal Proceedings.”

### **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, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, 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, Montgomery County, the City of Houston, or any entity other than the District.

### **Funds**

In the Bond Order, 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 Order 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.

The Bond Order also confirms the previous establishment of the District's General Fund. The District deposits, as collected, all revenues derived from operation of the District's water and wastewater system, if any, and from maintenance taxes into the General Fund. From the General Fund, the District pays all administration, operation, and maintenance expenses of the water and wastewater system. Any funds remaining in the General Fund after payment of maintenance and operating expenses, and to the extent they are ever necessary, after any payments pledged pursuant to the requirements of the Bonds, may be used by the District for any lawful purposes.

### **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 Order 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.

### **Record Date**

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on and after October 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on October 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If fewer than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (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 Order. While the Bonds are in the Book-Entry-Only System, the Bonds will be registered in the name of Cede & Co. and will not be transferred. See "BOOK-ENTRY-ONLY SYSTEM."

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

In the event the Book-Entry-Only System should be 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.

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

Provision is made in the Bond Order 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.

### **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$27,000,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds and \$190,000,000 principal amount of unlimited tax bonds for purposes of acquiring and constructing the water, sanitary sewer and drainage facilities to serve land within the District. The District's voters have also authorized \$144,000,000 principal amount of unlimited tax bonds for refunding bonds previously issued by the District. The District's voters could authorize additional amounts in future elections. The District currently has \$142,660,000 principal amount of authorized but unissued unlimited tax bonds and \$5,155,000 principal amount of authorized but unissued waterworks and sewer system combination unlimited tax and revenue bonds for purposes of acquiring and constructing water, sanitary sewer and drainage facilities. After the issuance of the Bonds, the District will have \$139,800,692 principal amount of authorized but unissued unlimited tax bonds for refunding bonds previously issued by the District. The Bond Order imposes no limitation on the amount of additional parity bonds which may be subsequently authorized for issuance by the District's voters or the amount ultimately issued by the District.

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 projects and bonds by the Texas Commission on Environmental Quality (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 District has no current plans to hold an election for the authorization of park bonds.

After approval by the District voters, the City and the Commission, the District also has the power to issue unlimited tax bonds for the purpose of providing fire-fighting facilities. The District has no current plans to hold an election for the authorization of bonds for fire-fighting facilities.

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 additional bonds could dilute the investment security for the Bonds.

## **Annexation and Consolidation**

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

The District has the right to consolidate with other municipal utility districts and in connection therewith to provide for the consolidation of the District’s waterworks and sewer system with the waterworks and sewer systems of the district(s) with which it is consolidating. The District has no current plans to exercise its right of consolidation. No representation is made concerning the ability of the consolidated district to make debt service payments on the Bonds and other outstanding obligations of the consolidated district should consolidation occur.

## **Strategic Partnership**

Pursuant to Chapter 43 of the Texas Local Government Code, the City and the District entered into a Strategic Partnership Agreement effective December 19, 2011 (as Amended and Restated effective November 22, 2013) to provide for a “limited purpose annexation” of that portion of the District that has been developed for retail and commercial purposes. See “THE DISTRICT—Strategic Partnership Agreement.”

## **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 Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. In the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order 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.

### **Amendments**

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change not to the prejudice of the Registered Owners, but the District may not otherwise amend the terms of the Bonds or of the Bond Order without the consent of the Registered Owners.

### **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current 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.

## **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**

Spring Creek Utility District (the "District") is a municipal utility district created by House Bill No. 1758 (62<sup>nd</sup> Texas Legislature, 1971). The District operates under provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission. The District is located wholly within the exclusive extraterritorial jurisdiction of the City and within the boundaries of the Conroe Independent School District.

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 may also provide solid waste disposal and collection services. 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 from the City, the Commission and the voters of the District. The District is authorized by statute to develop and finance parks and recreational facilities. See "District Parks and Recreation Facilities" below. Additionally, the District may develop and finance roads, subject to certain limitations and the granting of road powers by the Commission.

The Commission exercises continuing supervisory jurisdiction over the District. 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, and drainage facilities, roads, fire-fighting facilities and park and recreational 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 platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of the District's systems are subject to the regulatory jurisdiction of additional government agencies. See "THE SYSTEM."

### **Description and Location**

The District, which contains approximately 1,049 acres of land, is located in the southern portion of Montgomery County approximately 25 miles north of the downtown business area of the City and 13 miles south of the City of Conroe, the largest city and county seat of Montgomery County. The District is bisected by Rayford Road and bound on the south- southeast by Riley-Fuzzel Road (now the Grand Parkway Tollroad). There are two toll road metered exits/entrances within the District. Access to Houston's central business district is provided via Rayford Road west three miles to IH 45 and the Hardy Toll Road two miles to the west.

### **Status of Development**

Water, sanitary sewer and drainage facilities, as well as street paving, are complete to serve Fox Run Sections 1 through 12, Legends Run, Sections 1 through 13, Spring Creek Pines, Forest Village, Sections 1 through 10 and, Lockeridge Farms, Section 1 (709 acres developed into 3,881 single family residential lots). As of May 20, 2019, the District contained 3,503 occupied single-family connections, 35 vacant single-family connections, 24 builder connections and 319 vacant developed lots. New home construction in the District is presently being conducted by Lakeridge Builders, with homes selling within the \$170,000 to \$220,000 price range. The average home value in the District for tax year 2018 was \$128,740.

Commercial development in the District includes a self-storage facility, three convenience stores/gas stations, and a fast food restaurant on approximately 23 acres of land. A 267,000 square foot Wal-Mart, a CVS Pharmacy, an AT&T store, a UPS store, a Whataburger, a Bank of America, a Regions Bank, a Pollo Loco, a Starbucks, a State Farm Insurance agency, a Today's Vision, a Mattress Firm, a Marco's Pizza and a Pet Supply Plus have been constructed on a portion of a 29-acre tract that has been developed as Rayford Crossing. A 125,000 square foot Kroger grocery store and ancillary retail establishments, including a PetsMart, Sprint Store, a Chipotle, a Spring Creek BBQ, a Fajita Pete's, a Woodson's Pub & Grill, A First Financial Bank, Marble Slab Creamery, Salon Studios, Memorial Hermann healthcare center and a restaurant have been constructed on a 25-acre tract being marketed as Birnham Woods Marketplace. In addition, a gas station, self-storage facility, day care facility, Chick Fil-A, Taco Bell, Popeye's, an auto supply store and various other retail establishments have been constructed on an approximately 10-acre site marketed as Birnham Woods Crossing. In addition, Regal Cinemas Inc. owns approximately 14 acres of land in the District which an approximately 138,700 sf building consisting of a movie theater, fast food, bar, and fine dining restaurant is being constructed.

The District also contains a church located on approximately 8 acres which is not subject to taxation, and a Conroe Independent School District flex school constructed on approximately 22 acres, which is not subject to taxation. There is a Montgomery County Emergency Service District No. 8 fire station located on approximately 4 acres in the District and a pool/fitness complex located on an additional 8 acres within the District. In addition, the District contains approximately 197 acres of land in rights-of-way, easements, drainage channels, parks and open spaces, District plant sites, and recreational areas.

### **District Parks and Recreation Facilities**

The District owns Fox Springs Park, a park and recreation facility. Fox Springs Park was constructed with District general funds and a grant from the Texas Parks and Wildlife Department. The District's park and recreation facilities are located on approximately 20 acres and include a walking/jogging path, two multipurpose fields, two volleyball courts, a children's playground with a play structure, a picnic area and a pond with a fishing pier. Parking facilities are available at the park with handicap access to the facilities.

### **Community Facilities**

Amenities located within the boundaries of the District include two swimming pools and a splash pad. Fire protection is provided by the South Montgomery County Volunteer Fire Department.

Shopping facilities are located on Rayford Road approximately one-half mile west of the District. Several retail centers located at the intersection of IH 45 and Rayford/Sawdust Road and along IH 45 between Rayford Road and The Woodlands Parkway also provide residents of the District with shopping and banking facilities. The Woodlands Mall, a regional shopping center, is located approximately five miles from the District.

### **Strategic Partnership Agreement**

The District and the City have entered into a Strategic Partnership Agreement (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code effective December 19, 2011 (as Amended and Restated effective November 22, 2013). The SPA provides for the "limited purpose annexation" for that portion of the District which has been or is expected to be developed for retail or commercial purposes in order to apply certain City health, safety, planning and zoning ordinances and to impose a sales tax within that portion of 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 original effective date of the SPA.

Upon 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. The City is obligated to pay to the District an amount equal to one half (1/2) of all sales and use tax generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (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. None of the Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds. The District accrued Sales Tax Revenues of \$521,021 from the City for the fiscal year ended April 30, 2018 and has accrued additional Sales Tax Revenues since that date until April 30, 2019 in the amount of approximately \$377,397.

## MANAGEMENT

### **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 even numbered years. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Dale Healy	President	May 2020
Claude Humbert	Vice President	May 2022
Fred Sunderman	Secretary	May 2022
Leslie Gourley	Asst. Secretary	May 2022
Mark Fusca	Treasurer	May 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 Montgomery Central Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Utility Tax Service, LLC 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 A & S Engineers Inc. (the "Engineer").

### **District Inspector**

The District contracts with ASB Services for inspection services within the District.

### **Attorney**

The District engages Roach & Mitchell, PLLC as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid 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 on the sale and delivery of the Bonds.

### **Financial Advisor**

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

### **Auditor**

The District's financial statements for the fiscal year ending April 30, 2018 were audited by the independent account firm of Roth & Eyring, PLLC. The District has engaged Roth & Eyring, PLLC to audit the District's financial statements for the fiscal year ended April 30, 2019. See "APPENDIX A" for a copy of the audited financial statement of the District as of April 30, 2018.

## THE DEVELOPERS

In general, activities of developers of property located in utility districts include establishing a marketing program and building schedule, securing necessary governmental approvals and permits, arranging for the construction of roads and installation of utilities (including gas, telephone and electric service as well as water, sanitary sewer and drainage facilities), providing amenities to encourage home buying in the development, and selling improved lots and commercial reserves to builders or others. In addition, developers are usually major taxpayers during the development phase of property within the utility district.

Recent single-family development has been conducted by Woodmere Development Company, Ltd (“Woodmere”), a Texas limited partnership, which is developing Forest Village. Woodmere's general partner is Woodmere GP, LLC. Woodmere presently owns approximately 39 acres of undeveloped land in the District, a portion of which is undevelopable.

Parkway Rayford 42, LP (“PR42”), a Texas limited partnership, through its affiliate Willmann Development Company, LLC developed approximately 29 acres in the District known as Rayford Crossing into multiple commercial/retail sites, all but one of which have subsequently been sold to various other parties including Walmart. PR42 currently owns approximately one acre of land in the District upon which quick serve restaurant has been built.

Birnham Woods Crossing LLC (“Birnham Woods”), a Texas limited liability corporation, owns approximately 13 acres of land in the District upon which a portion of the Birnham Woods Marketplace has been constructed.

Kroger Texas LP owns approximately 12 acres of land in the District upon which a 125,000 square foot Kroger Marketplace has been constructed as a part of the Birnham Woods Marketplace retail development.

## THE SYSTEM

### Regulation

Construction and operation of the District's water, wastewater and storm drainage system (“System”) as it now exists or as it may be expanded from time-to-time is subject to regulatory jurisdiction of federal, state and local authorities. The Commission exercises continuing, supervisory authority over the District. Discharge of treated wastewater into Texas waters is also subject to the regulatory authority of the Commission and the United States Environmental Protection Agency (“EPA”). Construction of all water, wastewater and storm drainage facilities is subject to the regulatory authority of Montgomery County, Texas; the City of Houston, Texas; the Commission; the EPA; and in part by Montgomery County Drainage District No. 6.

### Water Supply

The District is split into two pressure planes, generally bisected by Rayford Road. The South pressure plane is primarily sourced by two water plant, Spring Creek Utility District Water Plant No. 1 (“SCUD WP 1”) and Spring Creek Utility District Water Plant No. 2 (“SCUD WP 2”). SCUD WP 1 includes a 1,200 gallon per minute (“gpm”) well, a 500,000 gallon ground storage tank, two 20,000 gallon hydropneumatic pressure tanks, booster pumps with a combined capacity of 3,800 gpm and an auxiliary power generator capable of running the entire plant. SCUD WP 2 includes 1,203 gpm of water supply capacity, a 210,000 gallon ground storage tank, a 15,000 gallon hydropneumatic pressure tank, booster pumps with a combined capacity of 2,000 gpm and an auxiliary power generator capable of running the entire plant. According to the Engineer, the combined capacity of SCUD WP 1 and SCUD WP 2 is capable of serving approximately 2,500 equivalent single-family connections.

The North pressure plane is primarily sourced by two water plants that the District shares with other districts. The District shares Legends Ranch Water Plant No. 2 (“LR WP 2”) with Montgomery County Municipal Utility District No. 88 (“MUD 88”), which includes a 1,000 gpm well, a 1,794 gpm well, one 100,400 gallon ground storage tank, one 333,600 gallon ground storage tank, three 15,000 gallon pressure tanks, and 5,150 gpm of booster pump capacity. The District owns 79.8% of the capacity in certain components in LR WP 2. Pursuant to the Water Facilities Contract dated October 7, 2004 and amendments thereto (the “Water Supply Agreement”), the District financed the entirety of the construction costs of the recent expansion of Legends Ranch Water Plant No. 2. The expansion included construction of a 1,794 gallon per minute water well, a 100,400 gallon ground storage tank, 1,350 gallons of booster pump capacity, and 15,000 gallons of hydropneumatic tank capacity (the “Expansion Facilities”). MUD 88 has reimbursed the District for 20.2% (MUD 88’s applicable share) of the original cost, applicable interest, and any additional expenses related to the construction of the Expansion Facilities. The District is capable of serving an additional 1,362 equivalent single-family connections with its allotted capacity of LR WP 1 and the allotted capacity of LR WP 2.

The District has a combined total water plant capacity capable of serving approximately 3,862 connections between SCUD WP1, SCUD WP2, LR WP1 and LR WP2. The District has an elevated storage tank waiver for both the North and South pressure planes which allows the District to serve more than 2,500 connections without requiring an elevated storage tank.

The District has two emergency interconnect agreements with Rayford Road Municipal Utility District and Southern Montgomery County Municipal Utility District through Rayford Road Municipal Utility District. The emergency interconnect is normally closed. The District has a second interconnect agreement with MUD 89, and the interconnect is normally left open as part of the shared water plant.

### **Lone Star Groundwater-Conservation District**

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District") which was created by the Texas Legislature to conserve, protect and enhance the groundwater resources of Montgomery County. The Conservation District has adopted rules and a regulatory plan for the conservation, preservation, protection, recharge and prevention of waste of groundwater, groundwater reservoirs or their subdivisions and to control subsidence caused by the withdrawal of groundwater from those groundwater resources or their subdivisions.

The Conservation District requires persons and entities, including the District, MUD 88 and MUD 89 that pump groundwater from wells to apply for and obtain permits for the withdrawal of groundwater under terms and conditions provided in the Conservation District's rules. The Conservation District has adopted its District Regulatory Plan, which calls for the reduction of groundwater withdrawal throughout Montgomery County to volumes that do not exceed the recharge capabilities of aquifers in the County to prevent the long-term depletion of the aquifers. The regulatory plan allows for the creation of management zones within the County to facilitate conservation of use of groundwater and development of other water resources from surface water or re-use of treated effluent.

Large water users, including the District, MUD 88 and MUD 89, were required to prepare and submit a two-part Water Resources Assessment Plan ("WRAP") to identify methods and plans for reduction of groundwater usage through the development of alternate water resources, including the design and construction of infrastructure and facilities to purchase and transport water to affected areas within the County. The initial requirement and deadline for reduction of groundwater use by 30% became effective January 1, 2016.

The District, MUD 88 and MUD 89 participate in a joint WRAP prepared by the San Jacinto River Authority, and the District is in compliance with Conservation District requirements.

The Conservation District currently bills permit holders, including the District, MUD 88 and MUD 89, \$0.105 per 1,000 gallons of water pumped from wells to finance the Conservation District's operations. This amount is subject to future increases.

### **San Jacinto River Authority GRP Agreement**

In response to the Conservation District requirements, the San Jacinto River Authority ("SJRA") expressed a willingness to assume responsibility to construct and operate a surface water treatment plant at or near Lake Conroe and a water transmission system to major populated areas of Montgomery County, thus enabling the entire county to comply with the Conservation District requirements.

SJRA offered to enter into a contract for groundwater reduction planning, alternative water supply, and related goods and services (the "GRP Contract") with all large water users in Montgomery County to achieve the goals for reduction of groundwater pumpage for the entire county. Approximately 130 larger volume water users in Montgomery County, including the District, MUD 88 and MUD 89, approved and entered into the GRP Contract (collectively the "Participants") and are in compliance with SJRA and Conservation District requirements applicable to groundwater pumpage from the District's wells and MUD 88 and MUD 89 wells.

Pursuant to the GRP Contract, SJRA will develop, implement and enforce a groundwater reduction plan ("GRP") covering all Participants to achieve and maintain compliance with the Conservation District requirements. The initial focus of the GRP will be the design and construction of a surface water treatment and transmission system (the "Project") to be owned and operated by SJRA for the benefit of all Participants.

The SJRA is designing, permitting, financing, constructs, owns, operates and maintains the Project, and the Project is being constructed in phases. Certain large volume Participants are being wholly converted to treated surface water while other users may continue to use groundwater. This approach is expected to minimize overall Project cost, equalize costs for Participants and avoid geographic advantages and disadvantages.

All Participants pay a monthly groundwater pumpage fee for groundwater pumped from wells, if any. The pumpage fee is set so that Participants are neither benefitted nor penalized for utilizing groundwater, and allowances have been made for Participant's costs of operating and maintain their wells.

Participants that receive treated surface water from the Project will pay the prevailing rate for water, which rate has been set so the Participants are neither benefitted nor penalized for being required to take water from the Project under the GRP, and allowances have been made for Participant costs of operating on-site water facilities, as well as operating and maintaining their wells. The pumpage fees and water service fees received from the Project are comparable, so that all Participants are paying equivalent charges without preference for customers within or outside the areas converted to surface water.

SJRA has issued bonds to finance the capital costs of the Project, and groundwater pumpage fees and water service fees are used to cover costs of debt service on the bonds. The SJRA pumpage fees are currently \$2.64 per 1,000 gallons of water pumped from wells and the District, MUD 88 and MUD 89 will pay the pumpage fees based upon the amount of water pumped by each district each month. The District, MUD 88 and MUD 89 pass these pumpage fees and Conservation District fees on to customers in the districts.

The District does not currently receive water from the Project and is not aware of any immediate plans to supply treated surface water to the District from the Project.

### **Wastewater Treatment**

The District owns and operates a 1,500,000 gallon per day (“gpd”) permanent wastewater treatment plant. Proceeds of the Outstanding Bonds were used to fund the plant expansion. Construction is substantially complete, and the expanded plant is operational. With the recent expansion, the District currently has wastewater treatment capacity to serve approximately 6,122 equivalent single-family connections.

### **Storm Drainage Facilities**

The natural drainage pattern of Spring Creek is generally split by Rayford Road. West of Rayford Road (the Fox Run, Spring Creek Pines and Forest Village neighborhoods), runoff is conveyed via a curb and gutter storm sewer system into a drainage channel maintained by Montgomery County Drainage District No. 6, which ultimately discharges into Spring Creek southwest of the District then into the San Jacinto River.

East of Rayford Road (all commercial development north of the Grand Parkway and the Legends Run neighborhood), runoff is conveyed via a curb and gutter storm sewer system into a regional detention pond shared with MCMUD 88 and MCMUD 89, see below). The regional detention pond is the start of Stokes Gully which ultimately discharges into the San Jacinto River.

On April 15, 2003, the District entered into a cost sharing agreement with MCMUD 89 and MCMUD 88 for the construction and financing of drainage and detention facilities, which include a regional detention pond and pump station. The regional detention pond and drainage facilities are owned by the District with each participant owning the beneficial right to the drainage capacity funded by it. The pump station facilities are allocated based on each district’s prorata share of the ultimate acreage to be served by the detention facilities. While detention pond allocations will vary in accordance with the construction of additional capacity, pump station pro rata shares are as follows: the District (28.5%); MCMUD No. 89 (40.8%); and MCMUD No. 88 (30.7%). See “INVESTMENT CONSIDERATIONS—Hurricane Harvey.”

### **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 rainstorm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100 year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, a small portion of the previously developed and developable land (approximately 11 acres) within the District lies within the 100-year flood plain as designated by the Federal Emergency Management Administration map for the area, revised as of August 18, 2014. FEMA has issued a Letter of Map Amendment for these areas. Future development in the flood plain areas would be elevated and detention/mitigation structures would be installed. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

## FINANCIAL STATEMENT

2018 Certified Taxable Assessed Valuation.....	\$568,458,723	(a)
2019 Preliminary Taxable Assessed Valuation.....	\$636,423,921	(b)

District Debt:

Outstanding Bonds as of June 1, 2019 .....	\$57,980,000	
Less: Refunded Bonds.....	7,050,000	
Plus: The Bonds .....	<u>7,300,000</u>	
Gross Debt Outstanding (after the issuance of the Bonds).....	\$58,230,000	

Ratios of Gross Direct Debt to:

2018 Certified Taxable Assessed Valuation .....	10.24%	
2019 Preliminary Taxable Assessed Valuation .....	9.15%	

Area of District — 1,049 acres  
Estimated 2019 Population — 12,260 (c)

- (a) As certified by the Montgomery Central 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. No tax will be levied on such amount until it is certified in the fall of 2019. See “TAX PROCEDURES.”
- (c) Estimate based on 3.5 persons per occupied single-family connection.

**Cash and Investment Balances** (unaudited as of June 17, 2019)

Operating Fund	Cash and Temporary Investments	\$10,126,075	(a)
Construction Fund	Cash and Temporary Investments	\$1,511,393	
Debt Service Fund	Cash and Temporary Investments	\$6,688,398	(b)

- (a) Includes approximately \$3,500,000 which will be used to pay for District waterline rehabilitation and replacement.
- (b) The District will apply \$113,000 towards the refunding of the Refunded Bonds. Includes \$3,076,718.77 for the October 1, 2019 debt service payment. Neither Texas law nor any Bond Order (including the Bond Order) requires the District to maintain any minimum balance in the Debt Service Fund.

**District Investment Policy**

The District’s goal is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Funds of the District are invested either in short term U.S. Treasuries or certificates of deposit insured by the Federal Deposit Insurance Corporation or secured by collateral held by a third-party institution. The District does not currently own any long-term securities or derivative products in the District’s investment portfolio.

**Outstanding Bonds**

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2009 (a)	\$ 7,620,000	\$ 520,000	\$ -	\$ 520,000
2010	8,025,000	7,325,000	7,050,000	275,000
2013	9,650,000	8,900,000	-	8,900,000
2014 (b)	7,735,000	5,050,000	-	5,050,000
2015	9,375,000	8,775,000	-	8,775,000
2016 (b)	5,305,000	5,015,000	-	5,015,000
2017	8,325,000	7,675,000	-	7,675,000
2017A (b)	5,400,000	5,220,000	-	5,220,000
2018	9,500,000	9,500,000	-	9,500,000
Total		\$ 57,980,000	\$ 7,050,000	\$ 50,930,000
The Bonds				7,300,000
The Bonds and Remaining Outstanding Bonds				\$ 58,230,000

- (a) Waterworks and sewer system combination unlimited tax and revenue bonds.
- (b) Unlimited tax refunding bonds.

**ESTIMATED OVERLAPPING DEBT AND TAX RATE STATEMENTS**

The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and 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 entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 529,035,000	4/30/2019	1.05%	\$ 5,554,868
Conroe Independent School District.....	1,207,585,000	4/30/2019	1.59%	19,200,602
Lone Star College System.....	609,845,000	4/30/2019	0.29%	1,768,551
Total Estimated Overlapping Debt.....				\$ 26,524,020
The District.....	58,230,000 (a)	Current	100.00%	58,230,000
Total Direct and Estimated Overlapping Debt.....				\$ 84,754,020
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation.....				14.91%
2019 Preliminary Taxable Assessed Valuation.....				13.32%

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



**Overlapping Taxes for 2018**

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.4667
Montgomery County Hospital District.....	0.0599
Montgomery County ESD No. 8.....	0.1000
Conroe Independent School District.....	1.2800
Lone Star College System.....	<u>\$ 0.1078</u>
Total Overlapping Tax Rate.....	\$ 2.0144
The District.....	<u>\$ 1.0000</u>
Total Tax Rate.....	\$ 3.0144

**TAX DATA**

**Historical Tax Collections**

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information.

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of May 31, 2019 (a)	
				Amount	Percent
2014	\$ 393,843,501	\$ 1.00	\$ 3,938,435	\$ 3,931,247	99.82%
2015	444,729,598	1.00	4,447,296	4,433,909	99.70%
2016	486,288,662	1.00	4,862,887	4,841,603	99.56%
2017	537,789,085	1.00	5,377,891	5,334,454	99.19%
2018	568,458,723	1.00	5,684,587	5,577,292	98.11%

(a) Unaudited.

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. No split payments are allowed, and no discounts are allowed.

**Historical Tax Rate Distribution**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$ 0.72	\$ 0.73	\$ 0.73	\$ 0.73	\$ 0.73
Maintenance and Operations	0.28	0.27	0.27	0.27	0.27
Total	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>

**Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).  
 Maintenance and Operations: \$0.40 per \$100 of taxable assessed valuation.

### **Debt Service Tax**

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2018 in the amount of \$0.72 per \$100 of taxable assessed valuation.

### **Maintenance Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by the District's voters. At an election held April 3, 1982, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.40 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2018 at the rate of \$0.28 per \$100 assessed valuation. See "Tax Rate Distribution" above.

### **Tax Exemptions**

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For 2019, the District adopted an exemption of \$50,000 of the appraised value of a residential homestead of persons who are disabled or 65 years of age or older and 20% of the appraised value of any residential homestead.

### **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 certified 2018 Certified Taxable Assessed Valuation of \$568,458,723. This represents ownership as of January 1, 2018. A principal taxpayer list related to the 2019 Preliminary Taxable Assessed Valuation is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
Birnam Woods Crossing LLC	Land & Improvements	\$ 15,611,060	2.75%
Wal-Mart Real Estate Business Trust	Land & Improvements	14,174,110	2.49%
Kroger Texas LP	Land & Improvements	13,316,590	2.34%
Wal-Mart Stores #3585	Personal	9,112,992	1.60%
CH Retail Fund II/Houston Rayford Crossing LP	Land & Improvements	8,550,180	1.50%
Birnam Storage LP	Land & Improvements	6,400,000	1.13%
Kroger	Personal	6,017,014	1.06%
SH 7100-7111 LLC	Land & Improvements	5,100,000	0.90%
RN Biles Investments LLC	Land & Improvements	4,484,640	0.79%
AMH 2015-2 Borrower LLC	Land & Improvements	3,169,430	0.56%
Total		\$ 85,936,016	15.12%

**Summary of Assessed Valuation**

The following summary of the 2018, 2017 and 2016 Certified Taxable Assessed Valuations are provided by the District's Tax Assessor/Collector based on information provided by the Appraisal District and contained in the 2018, 2017 and 2016 tax rolls of the District. Differences in totals may vary slightly from other information herein due to differences in dates of data. A breakdown of the 2019 Preliminary Taxable Assessed Valuation is not available.

	2018	2017	2016
Land	\$ 106,340,693	\$ 104,114,500	\$ 93,596,750
Improvements	540,441,433	505,758,746	454,482,128
Personal Property	30,886,651	20,031,293	8,536,154
Exemptions	<u>(109,210,054)</u>	<u>(92,115,454)</u>	<u>(70,326,370)</u>
Total	<u>\$ 568,458,723</u>	<u>\$ 537,789,085</u>	<u>\$ 486,288,662</u>

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2018 Certified Taxable Assessed Valuation of \$568,458,723 and the 2019 Preliminary Taxable Assessed Valuation of \$636,423,921, no use of available funds, and utilize tax rates necessary to pay the District's average annual debt service requirements and maximum annual debt service requirements on the Remaining Outstanding Bonds and the Bonds.

Average annual debt service requirement (2019-2043) .....	\$3,397,512
\$0.63 tax rate on the 2018 Certified Taxable Assessed Valuation	
of \$568,458,723 at a 95% collection rate produces .....	\$3,402,225
\$0.57 tax rate on the 2019 Preliminary Taxable Assessed Valuation	
of \$636,423,921 at a 95% collection rate produces .....	\$3,446,236
 Maximum annual debt service requirement (2020) .....	 \$4,024,928
\$0.75 tax rate on the 2018 Certified Taxable Assessed Valuation	
of \$568,458,723 at a 95% collection rate produces .....	\$4,050,268
\$0.67 tax rate on the 2019 Preliminary Taxable Assessed Valuation	
of \$636,423,921 at a 95% collection rate produces .....	\$4,050,838

**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 Remaining Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order 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 and for the payment of certain contractual obligations. See "TAX DATA—Debt Service Tax" and "—Maintenance Tax."

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

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

The 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 Montgomery Central Appraisal District has the responsibility for appraising property for all taxing units within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery Central 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; 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. For the 2019 tax year, the District has adopted a residential homestead exemption in the amount of \$50,000 for persons age 65 and older and disabled persons. Additionally, 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 claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence was donated by a charitable organization. Effective January 1, 2018, the exemption will apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

*Residential Homestead Exemptions:* The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) 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 by July 1. For 2019, the District has granted a general homestead exemption of 20% of the appraised value of residential homesteads. 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**

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

## **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 Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the 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 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 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 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 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 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 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 Tax Code. The 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 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 on the Remaining Outstanding Bonds and the Bonds and for maintenance and operation of the District's facilities and for any authorized contractual obligations. However, a person sixty-five (65) years of age or older, a disabled person is entitled by law to pay current taxes on the taxpayer's residence homestead in installments or to defer taxes without penalty during the time the taxpayer owns and occupies the property as a residence homestead. 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. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. In addition, if the District engages an attorney for collection of delinquent taxes, the Board may impose an additional penalty not to exceed twenty percent (20%) of all taxes, penalty and interest unpaid on July 1. The 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 Board has never authorized a discount for early payment. The District's tax collector is required to enter into an installment agreement with any person who is delinquent on the payment of tax on a residence homestead, 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 equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. The Tax Code permits taxpayers owning homes or certain businesses damaged by a declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalties or interest, commencing on February 1 and ending on August 1.

Affected property owners who qualify to receive a homestead exemption, may pay property taxes in four equal installments following a disaster. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. Certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead.

## **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 "SELECTED FINANCIAL INFORMATION" 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 the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT." 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 Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds or the Remaining Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Remaining Outstanding Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds or the Remaining Outstanding Bonds.

### 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 fiscal years April 30, 2015 through April 30, 2018 and from the District's Bookkeeper for the period ended April 30, 2019. Reference is made to such statements and records for further and more complete information.

	Fiscal Year Ended April 30				
	2019 (a)	2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 1,584,588	\$ 1,443,661	\$ 1,323,345	\$ 1,230,746	\$ 988,014
Water Service	1,060,812	912,620	1,085,817	751,048	727,367
Sewer Service	1,485,651	1,483,775	1,446,580	1,378,728	1,350,834
Surface Water Fees	852,358	851,162	837,385	706,823	623,353
Security Contributions	-	-	-	-	59,065
Sales and Use Taxes	377,397	521,021	-	-	-
Penalty and Interest	67,805	77,196	74,038	71,854	72,917
Tap Connection and Inspection Fees	192,041	455,635	938,850	765,850	79,300
Interest on Deposits and Investments	168,633	50,228	28,369	18,556	10,765
Other	31,098	143,583	175,141	148,416	116,494
<b>Total Revenues</b>	<u>\$ 5,820,382</u>	<u>\$ 5,938,881</u>	<u>\$ 5,909,525</u>	<u>\$ 5,072,021</u>	<u>\$ 4,028,109</u>
<b>Expenditures</b>					
Purchased Services	\$ 120,727	\$ 213,267	\$ 203,768	\$ 142,512	\$ 109,136
Professional Fees	407,045	265,869	279,711	296,006	253,805
Contracted Services	306,032	271,911	281,038	267,414	275,089
Utilities	168,799	182,308	176,933	157,283	163,412
Surface Water Pumpage Fees	795,081	723,292	790,224	671,965	601,547
Repairs and Maintenance	617,375	775,912	805,346	747,775	557,591
Other	217,602	141,326	226,799	158,413	123,203
Security Service	403,815	274,895	232,601	47,637	58,435
Garbage Disposal	633,818	617,215	601,896	618,700	598,940
Administrative Expenses	241,651	259,749	192,939	157,699	151,950
Capital Outlay	1,950,743 (b)	881,973	962,172	789,967	709,624
<b>Total Expenditures</b>	<u>\$ 5,862,687</u>	<u>\$ 4,607,717</u>	<u>\$ 4,753,427</u>	<u>\$ 4,055,371</u>	<u>\$ 3,602,732</u>
<b>Net Revenues</b>	\$ (42,305)	\$ 1,331,164	\$ 1,156,098	\$ 1,016,650	\$ 425,377
<b>Other Sources (Interfund Transfer)</b>	\$ 284,330	\$ (700,908)	\$ 883,074	\$ -	\$ -
<b>Fund Balance (Beginning of Year)</b>	\$ 8,995,736	\$ 8,365,480	\$ 6,326,308	\$ 5,309,658	\$ 4,884,281
<b>Fund Balance (End of Year)</b>	\$ 9,237,761	\$ 8,995,736	\$ 8,365,480	\$ 6,326,308	\$ 5,309,658

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

(b) Includes expenditures related to development of commercial tracts within the District, force main water line relocation, sanitary sewer and force main rehabilitation, Fox Run pond desilting and Smart meters.



## INVESTMENT CONSIDERATIONS

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Montgomery 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 taxes levied on taxable property within the District in an amount sufficient to service the District's bonded 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 Registered Owners 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 taxable property within 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 or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies and Bankruptcy Limitations" within.

### **Recent Extreme Weather Events; Hurricane Harvey**

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, including the District, has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event 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 District's operator, the District's System sustained no material damage and there was no interruption of District water and sewer service as a result of Hurricane Harvey. According to the District's operator and Engineer, approximately 200 homes (approximately 6%) within the District experienced structural flooding or other material damage.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an 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 or other casualty 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 could 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, of developed lots which are currently being marketed by the developers for sale to homebuilders for the construction of primary residences, and commercial and retail property. 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 residences. Demand for properties of this type and the construction thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets") below, construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

## **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 25 miles from the central downtown business district of the City, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base or reduce it from current levels.

## **Landowner Obligation to the District**

There are no commitments from or obligations of the Developers, any homebuilder, or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots or developed tracts of land would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable value.

## **Impact on District Tax Rate**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2018 Certified Taxable Assessed Valuation of the District (see "FINANCIAL STATEMENT") is \$568,458,723. After issuance of the Bonds, the maximum annual debt service requirement will be \$4,024,928 (2020) and the average annual debt service requirement will be \$3,397,512 (2019-2043) (see "DEBT SERVICE REQUIREMENTS"). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.75 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$4,024,928 and a tax rate of \$0.63 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$3,397,512. The 2019 Taxable Assessed Valuation is \$636,423,921 and reduces the above calculations to \$0.67 and \$0.57, respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds based upon the 2018 Certified Taxable Assessed Valuation and the 2019 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event the District's assessed valuation does not continue to increase or in the event major taxpayers do not pay their District taxes timely. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

## **Future Debt**

The District has reserved in the Bond Order the right to issue obligations other than the Bonds and the Remaining Outstanding Bonds, including tax anticipation notes, bond anticipation notes, and to borrow for any valid corporate purpose. Additionally, the District's voters have authorized the issuance of \$27,000,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds and \$190,000,000 principal amount of unlimited tax bonds for purposes of acquiring and constructing the water, sanitary sewer and drainage facilities to serve land within the District. The District's voters could authorize additional amounts in future elections. The District currently has \$142,660,000 principal amount of authorized but unissued unlimited tax bonds for purposes of acquiring and constructing water, sanitary sewer and drainage facilities, and \$5,155,000 principal amount of authorized but unissued waterworks and sewer system combination unlimited tax and revenue bonds for purposes of acquiring and constructing water, sanitary sewer and drainage facilities. Additionally, voters within the District have authorized the issuance of \$144,000,000 principal amount in unlimited tax bonds for the purpose of refunding bonds of the District. After the issuance of the Bonds, the District will have \$139,800,692 principal amount of authorized but unissued unlimited tax bonds for purposes of refunding bonds of the District. The future issuance of additional obligations may adversely affect the security for the Bonds and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuation or tax collections and does not otherwise limit the amount of additional bonds or other obligations which may be issued. The issuance of additional unlimited tax or unlimited tax and revenue bonds (other than refunding bonds), if any, however, is subject to approval by the Commission under guidelines of feasibility established by the Commission.

As of June 1, 2019, approximately \$3,700,000 has been expended by various developers of commercial tracts within the District for construction of water, sanitary sewer and drainage facilities to serve such commercial tracts. It is anticipated that additional bonds will be issued to reimburse such developers for the costs of the construction of these facilities and to serve the remaining undeveloped acreage within the District. See "THE BONDS—Authority for Issuance and Issuance of Additional Debt" and "THE DISTRICT—General."

## **Tax Collection Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two 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. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, if it fails to make payments into any fund or funds created in the Bond Order, or if it defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, 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 Order 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 Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission 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.

The District may not be forced into bankruptcy involuntarily.

### **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.

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

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Order on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

### **Marketability**

The District has no agreement 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 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.

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

The long-term ratings on the Bonds are 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 ratings of the Insurer and of the ratings 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.

## **LEGAL MATTERS**

### **Legal Opinion**

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property within the District. The District also will furnish the approving legal opinion of Roach & Mitchell, PLLC, Houston, Texas, Bond Counsel to the District (“Bond Counsel”), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District and that interest on the bonds is excludable from gross income for federal income tax purposes under existing laws except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District and matters described under the caption which follows entitled “TAX MATTERS.”

## **Legal Review**

In its capacity as Bond Counsel, Roach & Mitchell, PLLC has reviewed the information appearing in this Official Statement under the captions “PLAN OF FINANCING—Escrow Agreement and Payment of Refunded Bonds,” “THE BONDS,” “TAX PROCEDURES,” “THE DISTRICT—General” and “—Strategic Partnership Agreement,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of 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 of the information contained herein. The legal fees to be paid 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 on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds

## **No Material Adverse Change**

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

## **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**

### **Opinion**

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof, and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel.

If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Beneficial Owners may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Discount Bonds**

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof, or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

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

### **Federal Income Tax Accounting Treatment of Premium Bonds**

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.



The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, taxpayers qualifying for the health-insurance premium assistance credit, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

Interest on the Bonds will be includable as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporation by Section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

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

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

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

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

## MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") and Moody's Investors Service, Inc. (Moody's) will assign municipal bond ratings of "AA" (stable outlook) and "A2" (stable outlook), respectively, 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. Moody's has also assigned an underlying rating of "A2" to the Bonds. An explanation of the ratings may be obtained from the company furnishing each 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 or Moody's, if in their 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

### **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 to this OFFICIAL STATEMENT.

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

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

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

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

### *Current Financial Strength Ratings*

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

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

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

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

### *Capitalization of AGM*

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

- (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."

## 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 funds deposited with the Escrow Agent, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 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.

## 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 \$7,297,896.25 (representing the principal amount of the Bonds of \$7,300,000.00, plus a net premium on the Bonds of \$41,025.70, less an Underwriter's discount of \$56,503.62 plus \$13,374.17 of 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

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.

## 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 Developers, 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 employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

“THE DISTRICT” – A & S Engineers Inc. (“Engineer”), and Records of the District (“Records”); “THE DEVELOPERS AND PRINCIPAL PROPERTY OWNERS” – Woodmere; “THE SYSTEM”- Engineer; “FINANCIAL STATEMENT” - Montgomery Central Appraisal District and Utility Tax Service, LLC, Tax Assessor/Collector; “ESTIMATED OVERLAPPING DEBT STATEMENT AND TAX RATES” - Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” - Utility Tax Service, LLC; “MANAGEMENT” - District Directors; “DEBT SERVICE REQUIREMENTS” - Financial Advisor; “THE BONDS,” “TAX PROCEDURES,” “LEGAL MATTERS” and “TAX MATTERS” - Roach & Mitchell, PLLC.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as 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 A & S Engineers Inc. 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 Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Montgomery 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 Utility Tax Service, LLC, and is included herein in reliance upon the authority of said firm as an expert in assessing and collecting taxes.

**Auditor:** The District's financial statements for the fiscal year ending April 30, 2018 were audited by Roth & Eyring, PLLC. See APPENDIX A for a copy of the District's audited financial statements for the fiscal year ended April 30, 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 the 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.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made 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 certain 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 updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "FINANCIAL STATEMENT," "TAX DATA," "THE SYSTEM," "DEBT SERVICE REQUIREMENTS," "WATER AND SEWER OPERATIONS" (most of which information is contained in the District's annual audit report) and in APPENDIX A. 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 auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable 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 April 30. Accordingly, it must provide updated information by October 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Specified 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 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 term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the 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.

**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 Order 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 Spring Creek Utility District, as of the date shown on the cover page.

/s/ John Dale Healy  
President, Board of Directors  
Spring Creek Utility District

ATTEST:

/s/ Fred Sunderman  
Secretary, Board of Directors  
Spring Creek Utility District

**APPENDIX A**

**Financial Statement of the District for the year ended April 30, 2018**



SPRING CREEK UTILITY DISTRICT  
MONTGOMERY COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
APRIL 30, 2018

## C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	10
NOTES TO THE FINANCIAL STATEMENTS	11-24
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	25
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND	26
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	27
SCHEDULE OF SERVICES AND RATES	28-29
EXPENDITURES FOR THE YEAR ENDED APRIL 30, 2018	30-31
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS, ALL GOVERNMENTAL FUND TYPES	32
SCHEDULE OF CERTIFICATES OF DEPOSITS AND TEMPORARY INVESTMENTS	33
TAXES LEVIED AND RECEIVABLE	34-35
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	36-43
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	44-46
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	47
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	48
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	49-50

# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

August 20, 2018

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Spring Creek  
Utility District  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Spring Creek Utility District, as of and for the year ended April 30, 2018, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

### **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 of 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 of material misstatement.

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

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

### **Opinions**

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

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8, Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 25 and the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 26 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 27 to 50 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

*North & Cousins, PLLC*

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Spring Creek Utility District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended April 30, 2018.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as security service and garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

#### *Fund Financial Statements*

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

### **Financial Analysis of the District as a Whole**

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 21,695,527	\$ 20,303,116	\$ 1,392,411
Capital assets	60,326,530	56,642,920	3,683,610
Total assets	<u>82,022,057</u>	<u>76,946,036</u>	<u>5,076,021</u>
Long-term liabilities	56,719,137	59,784,076	(3,064,939)
Other liabilities	10,936,478	4,837,107	6,099,371
Total liabilities	<u>67,655,615</u>	<u>64,621,183</u>	<u>3,034,432</u>
Net position:			
Invested in capital assets, net of related debt	(2,381,682)	(4,800,289)	2,418,607
Restricted	7,690,776	8,704,283	(1,013,507)
Unrestricted	9,057,348	8,420,859	636,489
Total net position	<u>\$ 14,366,442</u>	<u>\$ 12,324,853</u>	<u>\$ 2,041,589</u>

Summary of Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 5,421,357	\$ 4,937,674	\$ 483,683
Charges for services	4,847,416	4,780,245	67,171
Other revenues	105,824	54,657	51,167
Total revenues	<u>10,374,597</u>	<u>9,772,576</u>	<u>602,021</u>
Expenses:			
Service operations	6,169,669	5,816,027	353,642
Debt service	2,163,339	2,459,668	(296,329)
Total expenses	<u>8,333,008</u>	<u>8,275,695</u>	<u>57,313</u>
Excess revenues (expenditures)	2,041,589	1,496,881	544,708
Special Items:			
Condemnation proceeds	0	102,661	(102,661)
Change in net position	2,041,589	1,599,542	442,047
Net position, beginning of year	<u>12,324,853</u>	<u>10,725,311</u>	<u>1,599,542</u>
Net position, end of year	<u>\$ 14,366,442</u>	<u>\$ 12,324,853</u>	<u>\$ 2,041,589</u>

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

The District's combined fund balances as of the end of the fiscal year ended April 30, 2018, were \$16,685,574, a decrease of \$421,514 from the prior year.

The General Fund balance increased by \$630,256, as revenues exceeded expenditures and the transfer of \$700,908 to the Capital Projects Fund.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$279,628, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$1,331,398, as authorized expenditures exceeded proceeds from the Series 2017 Bond Anticipation Note, the transfer of \$700,908 from the General Fund and interest earnings on deposits and investments.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 25 of this report. The budgetary fund balance as of April 30, 2018, was expected to be \$8,810,587 and the actual end of year fund balance was \$8,995,736.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land and easements	\$ 1,579,676	\$ 1,579,676	\$ 0
Drainage ditches/Detention ponds/Park improvements	5,298,644	5,298,644	0
Park improvements	401,113	169,051	232,062
Construction in progress	22,057,918	17,623,633	4,434,285
Water facilities	9,229,886	9,547,613	(317,727)
Sewer facilities	11,560,148	11,919,222	(359,074)
Drainage facilities	<u>10,199,145</u>	<u>10,505,081</u>	<u>(305,936)</u>
Totals	<u>\$ 60,326,530</u>	<u>\$ 56,642,920</u>	<u>\$ 3,683,610</u>

Changes to capital assets during the fiscal year ended April 30, 2018, are summarized as follows:

#### Additions:

Park improvements	\$ 252,015
Wastewater system improvements	1,788,128
Underground facilities constructed by developers	<u>2,680,260</u>
Total additions to capital assets	4,720,403

#### Decreases:

Depreciation	<u>(1,036,793)</u>
Net change to capital assets	<u>\$ 3,683,610</u>



### *Debt*

On May 15, 2018, the District issued its Series 2018 Unlimited Tax Bonds in the amount of \$9,500,000.

Changes in the bonded debt position of the District during the fiscal year ended April 30, 2018, are summarized as follows:

Bonded debt payable, beginning of year	\$ 52,115,000
Refunding bonds sold	5,400,000
Bonds refunded	(5,400,000)
Bonds paid	<u>(1,815,000)</u>
Bonded debt payable, end of year	<u>\$ 50,300,000</u>

At April 30, 2018, the District had \$17,315,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

On November 28, 2017, the District issued its Series 2017 Bond Anticipation Note in the amount of \$4,265,000 in order to reimburse the developers a portion of the amounts due. This note was paid from the proceeds of the \$9,500,000 Series 2018 Unlimited Tax Bonds on May 15, 2018.

On May 4, 2017, the District issued \$5,400,000 in unlimited tax refunding bonds to advance refund \$5,400,000 of outstanding Series 2009 bonds. The net proceeds of \$5,720,607 (after payment of \$209,198 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$689,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$510,000.

The District's bonds have an underlying rating of BBB+ and A2 from Standard & Poor's and Moody's, respectively. The Series 2009, 2010, 2015 and 2017A bonds are insured by Assured Guaranty Municipal Corp. and the Series 2013, 2014, 2016 and 2017 bonds are insured by Build America Mutual Company. The Series 2009, 2010, 2013, 2014, 2015, 2016, 2017 and 2017A bonds are rated AA by Standard & Poor's. The Series 2015 and 2017A bonds are also rated A2 by Moody's. There were no changes in the bond ratings during the fiscal year ended April 30, 2018.

As further described in Note 5 of the notes to the financial statements, developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at April 30, 2018, was \$8,313,179.

### **RELEVANT FACTORS AND WATER SUPPLY ISSUES**

#### *Property Tax Base*

The District's tax base increased approximately \$52,530,000 for the 2017 tax year (approximately 11%) due to the addition of new homes within the District and the increase in the average assessed valuations on existing properties.

### *Relationship to the City of Houston*

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 19, 2011 (as Amended and Restated effective November 22, 2013). The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purpose of imposition of the City's Sales and Use Tax. No City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District for full purposes or commence any action to annex all or part of the District for full purposes.

### *Water Supply Issues*

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77<sup>th</sup> Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an appointed nine member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 9.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of April 30, 2018, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well.

The San Jacinto River Authority (SJRA) is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, whose area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

The LSGCD established a regulatory target in its District Regulatory Plan (DRP) Phase I to reduce groundwater withdrawals from the aquifer in Montgomery County to 64,000 acre-feet per year by January 2018. The LSGCD District Regulatory Plan (DRP) Phase II (A) required large volume groundwater users (LVGU) to submit a Water Resource Assessment Plan (WRAP), which included identification of new water supply sources to meet projected water demands by March of 2009. SJRA prepared and submitted a joint plan on behalf of 201 large volume groundwater users to reduce groundwater withdrawal and encourage the conjunctive use of surface water with ground water supplies to meet the LSGCD regulations. In November 2009, the LSGCD adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the user intends to meet a 2018 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join. Any large volume groundwater user in the county may join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. The District has executed a GRP Contract with the SJRA. The GRP Pumpage Fee as of April 30, 2018 is \$2.64 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. It is anticipated that this fee will increase each year as costs are incurred for design and construction of the necessary infrastructure to deliver surface water.

The District cannot predict the amount or level of fees and charges which may be due the Authorities for future years, but anticipates that it will pass such fees through to its customers. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds.

SPRING CREEK UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

APRIL 30, 2018

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>							
Cash, including interest-bearing accounts, Note 7	\$ 6,602,050	\$ 33,789	\$ 5,034,654	\$ 2,205,488	\$ 13,875,981	\$	\$ 13,875,981
Certificates of deposit, at cost, Note 7	709,319		938,852		1,648,171		1,648,171
Temporary investments, at cost, Note 7	2,873,487		533,328	2,060,333	5,467,148		5,467,148
Receivables:							
Property taxes	61,612		166,580		228,192		228,192
Accrued penalty and interest on property taxes					0	41,198	41,198
Service accounts	294,014				294,014		294,014
Other participants in joint venture, Note 9		36,077			36,077		36,077
Accrued interest	5,653		6,618		12,271		12,271
Other	26,175				26,175		26,175
Maintenance taxes collected not yet transferred from other fund	3,744				3,744	(3,744)	0
Due from other funds	153,728	1,426			155,154	(155,154)	0
Operating reserve at joint ventures, Note 9	59,860				59,860	(18,060)	41,800
Prepaid expenditures	24,500				24,500		24,500
Capital assets, net of accumulated depreciation, Note 4:							
Capital assets not being depreciated					0	28,936,238	28,936,238
Depreciable capital assets					0	31,390,292	31,390,292
<b>Total assets</b>	<b><u>\$10,814,142</u></b>	<b><u>\$ 71,292</u></b>	<b><u>\$6,680,032</u></b>	<b><u>\$ 4,265,821</u></b>	<b><u>\$ 21,831,287</u></b>	<b><u>60,190,770</u></b>	<b><u>82,022,057</u></b>
<b>LIABILITIES</b>							
Accounts payable	\$ 251,196	\$ 11,292	\$ 5,705	\$ 2,741	\$ 270,934		270,934
Construction contracts payable				540,179	540,179		540,179
Developer reimbursement payable				2,443,338	2,443,338		2,443,338
Accrued interest payable					0	146,840	146,840
Customer and builder deposits	684,361				684,361		684,361
Landowner construction and annexation deposits	819,811				819,811		819,811
Maintenance taxes collected not yet transferred to other fund			3,744		3,744	(3,744)	0
Due to other funds	1,426			153,728	155,154	(155,154)	0
Other district equity in joint stormwater facilities					0	41,940	41,940
Long-term liabilities, Note 5:							
Due within one year					0	5,989,075	5,989,075
Due in more than one year					0	56,719,137	56,719,137
<b>Total liabilities</b>	<b><u>1,756,794</u></b>	<b><u>11,292</u></b>	<b><u>9,449</u></b>	<b><u>3,139,986</u></b>	<b><u>4,917,521</u></b>	<b><u>62,738,094</u></b>	<b><u>67,655,615</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Property tax revenues	<u>61,612</u>	<u>0</u>	<u>166,580</u>	<u>0</u>	<u>228,192</u>	<u>(228,192)</u>	<u>0</u>
<b>FUND BALANCES / NET POSITION</b>							
<b>Fund balances:</b>							
Nonspendable:							
Operating reserve at joint ventures, Note 9	59,860	60,000			119,860	(119,860)	0
Assigned to:							
Debt service			6,504,003		6,504,003	(6,504,003)	0
Capital projects				1,125,835	1,125,835	(1,125,835)	0
Unassigned	<u>8,935,876</u>				<u>8,935,876</u>	<u>(8,935,876)</u>	<u>0</u>
<b>Total fund balances</b>	<b><u>8,995,736</u></b>	<b><u>60,000</u></b>	<b><u>6,504,003</u></b>	<b><u>1,125,835</u></b>	<b><u>16,685,574</u></b>	<b><u>(16,685,574)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$10,814,142</u></b>	<b><u>\$ 71,292</u></b>	<b><u>\$6,680,032</u></b>	<b><u>\$ 4,265,821</u></b>	<b><u>\$ 21,831,287</u></b>		
<b>Net position:</b>							
Invested in capital assets, net of related debt, Note 4						(2,381,682)	(2,381,682)
Restricted for debt service						6,564,941	6,564,941
Restricted for capital projects						1,125,835	1,125,835
Unrestricted						<u>9,057,348</u>	<u>9,057,348</u>
<b>Total net position</b>						<b><u>\$ 14,366,442</u></b>	<b><u>\$ 14,366,442</u></b>

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

SPRING CREEK UTILITY DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED APRIL 30, 2018

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>							
Property taxes	\$ 1,443,661		\$ 3,903,231		\$ 5,346,892	\$ 23,085	\$ 5,369,977
Water service	912,620				912,620		912,620
Sewer service	1,483,775				1,483,775		1,483,775
Surface water fees, Note 10	851,162				851,162		851,162
Sales and Use Taxes, Note 12	521,021				521,021		521,021
From participants in joint venture, Note 9		556,158			556,158	(153,734)	402,424
Penalty and interest	77,196		44,531		121,727	6,849	128,576
Tap connection and sewer inspection fees	455,635				455,635		455,635
Interest on deposits and investments	50,228	114	39,210	16,272	105,824		105,824
Accrued interest on bonds received at date of sale			1,291		1,291	(1,291)	0
Other revenues	143,583				143,583		143,583
<b>Total revenues</b>	<b>5,938,881</b>	<b>556,272</b>	<b>3,988,263</b>	<b>16,272</b>	<b>10,499,688</b>	<b>(125,091)</b>	<b>10,374,597</b>
<b>EXPENDITURES / EXPENSES</b>							
Service operations:							
Purchased services, Note 9	213,267				213,267	(153,734)	59,533
Professional fees	265,869	33,361	14,367	33,813	347,410		347,410
Contracted services	271,911	12,301	82,924		367,136		367,136
Utilities	182,308	55,885			238,193		238,193
Surface water pumpage fees, Note 10	723,292				723,292		723,292
Repairs and maintenance	775,912	450,578			1,226,490		1,226,490
Other operating expenditures	141,326				141,326		141,326
Security service	274,895				274,895		274,895
Garbage disposal	617,215				617,215		617,215
Administrative expenditures	259,749	4,147	14,623		278,519		278,519
Depreciation					0	1,036,793	1,036,793
Capital outlay / non-capital outlay	881,973			6,179,511	7,061,484	(6,202,617)	858,867
Debt service:							
Principal retirement			1,815,000		1,815,000	(1,815,000)	0
BAN issuance expenditures				100,254	100,254		100,254
Refunding bond issuance expenditures					0	209,198	209,198
Interest and fees			1,781,721		1,781,721	72,166	1,853,887
<b>Total expenditures / expenses</b>	<b>4,607,717</b>	<b>556,272</b>	<b>3,708,635</b>	<b>6,313,578</b>	<b>15,186,202</b>	<b>(6,853,194)</b>	<b>8,333,008</b>
Excess (deficiency) of revenues over expenditures	1,331,164	0	279,628	(6,297,306)	(4,686,514)	6,728,103	2,041,589
<b>OTHER FINANCING SOURCES (USES)</b>							
Refunding bonds issued, Note 5			5,400,000		5,400,000	(5,400,000)	0
Bond issuance premium, Note 5			529,891		529,891	(529,891)	0
Payment to refunding escrow agent, Note 5			(5,720,693)		(5,720,693)	5,720,693	0
Refunding bond issuance expenditures, Note 5			(209,198)		(209,198)	209,198	0
Bonds Anticipation Note proceeds, Note 5				4,265,000	4,265,000	(4,265,000)	0
Transfer to (from) other fund	(700,908)			700,908	0	0	0
<b>Total other financing sources (uses)</b>	<b>(700,908)</b>	<b>0</b>	<b>0</b>	<b>4,965,908</b>	<b>4,265,000</b>	<b>(4,265,000)</b>	<b>0</b>
Net change in fund balances / net position	630,256	0	279,628	(1,331,398)	(421,514)	2,463,103	2,041,589
Beginning of year	8,365,480	60,000	6,224,375	2,457,233	17,107,088	(4,782,235)	12,324,853
End of year	\$ 8,995,736	\$ 60,000	\$ 6,504,003	\$ 1,125,835	\$ 16,685,574	\$ (2,319,132)	\$ 14,366,442

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

SPRING CREEK UTILITY DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
APRIL 30, 2018

NOTE 1: REPORTING ENTITY

Spring Creek Utility District (the "District") was created by Acts of the 62nd Legislature of the State of Texas, Regular Session, 1971, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on March 13, 1972, and the first bonds were sold on May 22, 1975. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services and maintain recreational facilities. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

The District is the manager of the Legends Ranch Central Drainage Facilities (the "Facilities"). Oversight of the Facilities is exercised by the Board of Directors of the District and financial activity of the Facilities has been included as a component unit in the financial statements of the District. The Facilities's General Fund has been reported as the Special Revenue Fund of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the Spring Creek Utility District Stormwater Facilities.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 16,685,574
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds :		
Total capital assets, net		60,326,530
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (50,300,000)	
Deferred charge on refunding (to be amortized as interest expense)	634,280	
Issuance premium net of discount (to be amortized as interest expense)	(436,737)	
Accreted interest payable	(27,576)	
Bond Anticipation Note payable	(4,265,000)	
Due to developer	<u>(8,313,179)</u>	(62,708,212)
The assets in the Special Revenue Fund are owned by the District and other participants in the joint venture:		
The District's equity	(18,060)	
Other participants' equity	<u>(41,940)</u>	(60,000)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	41,198	
Uncollected property taxes	<u>228,192</u>	269,390
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(146,840)</u>
Net position, end of year		<u>\$ 14,366,442</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (421,514)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 6,202,617	
Depreciation	<u>(1,036,793)</u>	5,165,824
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued	(5,400,000)	
Bond Anticipation Note proceeds	(4,265,000)	
Payment to escrow agent for refunding	5,720,693	
Principal reduction	<u>1,815,000</u>	(2,129,307)
<p>The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(25,756)	
Issuance premium, net of amortization	<u>(564,578)</u>	(590,334)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	6,849	
Uncollected property taxes	<u>23,085</u>	29,934
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accreted interest	(27,576)	
Accrued interest	<u>14,562</u>	<u>(13,014)</u>
Change in net position		<u>\$ 2,041,589</u>

**NOTE 4: CAPITAL ASSETS**

At April 30, 2018, "Invested in capital assets, net of related debt" was \$(2,381,682). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended April 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and easements	\$ 1,579,676	\$	\$	\$ 1,579,676
Drainage ditches/Ponds/Park improvements	5,298,644			5,298,644
Construction in progress	<u>17,623,633</u>	<u>4,459,503</u>	<u>25,218</u>	<u>22,057,918</u>
Total capital assets not being depreciated	<u>24,501,953</u>	<u>4,459,503</u>	<u>25,218</u>	<u>28,936,238</u>
Depreciable capital assets:				
Park improvements	376,887	252,015		628,902
Water system	12,318,815	12,610		12,331,425
Sewer system	16,117,694	21,493		16,139,187
Drainage system	<u>13,219,683</u>			<u>13,219,683</u>
Total depreciable capital assets	<u>42,033,079</u>	<u>286,118</u>	<u>0</u>	<u>42,319,197</u>
Less accumulated depreciation for:				
Park improvements	(207,836)	(19,953)		(227,789)
Water system	(2,771,202)	(330,337)		(3,101,539)
Sewer system	(4,198,472)	(380,567)		(4,579,039)
Drainage system	<u>(2,714,602)</u>	<u>(305,936)</u>		<u>(3,020,538)</u>
Total accumulated depreciation	<u>(9,892,112)</u>	<u>(1,036,793)</u>	<u>0</u>	<u>(10,928,905)</u>
Total depreciable capital assets, net	<u>32,140,967</u>	<u>(750,675)</u>	<u>0</u>	<u>31,390,292</u>
Total capital assets, net	<u>\$ 56,642,920</u>	<u>\$ 3,708,828</u>	<u>\$ 25,218</u>	<u>\$ 60,326,530</u>
Changes to capital assets:				
Capital outlay		\$ 6,202,617	\$	
Increase in liability to developers for construction		2,680,260		
Capital outlay paid (decrease in liability) to developers		(4,162,474)		
Assets transferred to depreciable assets		25,218	25,218	
Less depreciation expense for the fiscal year		<u>(1,036,793)</u>		
Net increases / decreases to capital assets		<u>\$ 3,708,828</u>	<u>\$ 25,218</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

On May 15, 2018, the District issued its Series 2018 Unlimited Tax Bonds in the amount of \$9,500,000.

Long-term liability activity for the fiscal year ended April 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 52,115,000	\$ 5,400,000	\$ 7,215,000	\$ 50,300,000	\$ 1,820,000
Add interest accreted	0	27,576		27,576	0
Less deferred amounts:					
Refunding charge	(232,444)	(427,592)	(25,756)	(634,280)	(62,960)
For issuance (discounts) net of premium	(234,740)	529,891	(141,586)	436,737	(32,965)
Bond Anticipation Note payable	<u>0</u>	<u>4,265,000</u>		<u>4,265,000</u>	<u>4,265,000</u>
Total bonds payable	<u>51,647,816</u>	<u>9,794,875</u>	<u>7,047,658</u>	<u>54,395,033</u>	<u>5,989,075</u>
Due to developer (see below)	<u>9,795,393</u>	<u>2,680,260</u>	<u>4,162,474</u>	<u>8,313,179</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 61,443,209</u>	<u>\$ 12,475,135</u>	<u>\$ 11,210,132</u>	<u>\$ 62,708,212</u>	<u>\$ 5,989,075</u>
Bonds payable, beginning of year				\$ 52,115,000	
Refunding bonds sold:					
Proceeds		\$ 5,929,891			
Premium		<u>(529,891)</u>		5,400,000	
Bonds paid				(1,815,000)	
Bonds refunded				<u>(5,400,000)</u>	
Bonds payable, end of year				<u>\$ 50,300,000</u>	

On November 28, 2017, the District issued its Series 2017 Bond Anticipation Note in the amount of \$4,265,000 in order to reimburse the developers a portion of the amounts due. This note was paid from the proceeds of the \$9,500,000 Series 2018 Unlimited Tax Bonds on May 15, 2018.

Developer Construction Commitments and Liabilities

Developers within the District are currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at April 30, 2018, was \$8,313,179. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Fiscal Year	Principal	Interest*	Total
2019	\$ 1,820,000	\$ 1,734,802	\$ 3,554,802
2020	1,860,000	1,682,032	3,542,032
2021	1,905,000	1,626,175	3,531,175
2022	1,575,000	1,573,532	3,148,532
2023	1,595,000	1,528,906	3,123,906
2024 - 2028	10,285,000	6,756,987	17,041,987
2029 - 2033	11,620,000	4,821,038	16,441,038
2034 - 2038	13,290,000	2,492,804	15,782,804
2039 - 2042	6,350,000	321,564	6,671,564
	<u>\$ 50,300,000</u>	<u>\$ 22,537,840</u>	<u>\$ 72,837,840</u>

\*Interest on the Premium Compound Interest Bonds which mature October 1, 2020, October 1, 2021 and October 1, 2022 will be paid upon redemption.

Bonds voted	\$ 77,000,000
Bonds approved for sale and sold	59,685,000
Bonds voted and not issued	17,315,000
Refunding bonds voted	4,000,000
Refunding bonds sold	3,949,308
Refunding bonds voted and not issued	50,692

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 Series 2009 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The bond issues payable at April 30, 2018, were as follows:

	<u>Series 2009</u>	<u>Series 2010</u>	<u>Series 2013</u>
Amounts outstanding, April 30, 2018	\$770,000	\$7,425,000	\$8,925,000
Interest rates	4.15% to 5.50%	4.25% to 6.00%	3.00% to 5.00%
Maturity dates, serially beginning/ending	October 1, 2018/2020	October 1, 2018/2034	October 1, 2018/2039
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	October 1, 2018*	October 1, 2019*	October 1, 2021*

\*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2014</u>	<u>Series 2015</u>	<u>Refunding Series 2016</u>
Amounts outstanding, April 30, 2018	\$5,815,000	\$8,975,000	\$5,085,000
Interest rates	2.00% to 3.25%	2.50% to 3.75%	1.35% to 4.00%
Maturity dates, serially beginning/ending	October 1, 2018/2025	October 1, 2018/2039	October 1, 2018/2032
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	October 1, 2022*	October 1, 2023*	October 1, 2023*
	<u>Series 2017</u>	<u>Refunding Series 2017A**</u>	
Amounts outstanding, April 30, 2018	\$8,000,000	\$5,305,000	
Interest rates	2.00% to 3.75%	2.00% to 3.375%	
Maturity dates, serially beginning/ending	October 1, 2018/2041	October 1, 2018/2033	
Interest payment dates	October 1/April 1	October 1/April 1	
Callable dates	October 1, 2024*	October 1, 2024*	

\*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

\*\*On May 4, 2017, the District issued \$5,400,000 in unlimited tax refunding bonds to advance refund \$5,400,000 of outstanding Series 2009 bonds. The net proceeds of \$5,720,607 (after payment of \$209,198 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$689,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$510,000.

**NOTE 6: PROPERTY TAXES**

The Montgomery County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At an election held April 3, 1982, the voters within the District authorized a maintenance tax not to exceed \$0.40 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 18, 2017, the District levied the following ad valorem taxes for the 2017 tax year on the adjusted taxable valuation of \$539,102,128:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.7300	\$ 3,935,446
Maintenance	<u>0.2700</u>	<u>1,455,576</u>
	<u>\$ 1.0000</u>	<u>\$ 5,391,022</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2017 tax year total property tax levy	\$ 5,391,022
Appraisal district adjustments to prior year taxes	<u>(21,045)</u>
Statement of Activities property tax revenues	<u>\$ 5,369,977</u>

**NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS**

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$15,524,152 and the bank balance was \$16,318,746. Of the bank balance, \$1,943,143 was covered by federal insurance, \$12,033,558 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta and \$2,342,045 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$5,467,148.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits and temporary investments restricted by state statutes and Bond Orders:

Debt Service Fund

For payment of debt principal and interest,  
paying agent fees and costs of assessing and  
collecting taxes:

Cash	\$ 5,034,654
Certificates of deposit	938,852
Temporary investments	<u>533,328</u>
	<u>\$ 6,506,834</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 2,205,488
Temporary investments	<u>2,060,333</u>
	<u>\$ 4,265,821</u>

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At April 30, 2018, the District had physical damage and boiler and machinery coverage of \$20,168,397, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: CONTRACTS WITH OTHER DISTRICTS

Stormwater Facilities Contract

On April, 15, 2003, Spring Creek Utility District, Montgomery County Municipal District No. 88 and Montgomery County Municipal Utility District No. 89 entered into a contract for the purpose of sharing the cost of constructing and operating the Legends Ranch Central Drainage Facilities (the "Facilities"). The contract is for a period of forty years.

Spring Creek Utility District is the owner and operator of the Facilities. The Facilities' General Fund has been reported as the Special Revenue Fund of the District. Construction costs of the Facilities are funded by the contribution of funds from each participating district. Expansion costs of the Facilities will be the subject of a separate written agreement between the parties, or an amendment to this contract. The Facilities issues no debt. Capital assets of the Facilities are reported in the financial statements of each District.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

Each participant is responsible for its share of the operating costs of the Facilities. Ownership of each participating district's capacity in the pump station facilities at April 30, 2018, was as follows: Spring Creek Utility District -- 24.0%; Montgomery County Municipal Utility District No. 88 -- 28.2%; Montgomery County Municipal Utility District No. 89 -- 47.8%. As of April 30, 2018, pump station facilities costs are billed as follows: Spring Creek Utility District -- 28.5%; Montgomery County Municipal Utility District No. 88 -- 30.7%; Montgomery County Municipal Utility District No. 89 -- 40.8%. Drainage and detention facilities maintenance costs are allocated based on each participating district's capacity. As of April 30, 2018, the capacity allocations were as follows: Spring Creek Utility District -- 27.156%; Montgomery County Municipal Utility District No. 88 -- 28.067%; Montgomery County Municipal Utility District No. 89 -- 44.777%. Participants are billed a monthly amount which is equal to the actual costs incurred during the prior month.

During the fiscal year ended April 30, 2018, the District accrued \$153,734 for its share of the Facilities' operating expenditures and \$3,772 for its share of the Facilities' capital expenditures. . At this date the District had contributed \$18,060 of the Facilities' \$60,000 operating reserve.

### Water Facilities Contracts

#### Water Plant No. 1

On February 25, 2003, as amended August 15, 2008, the District entered into an agreement with Montgomery County Municipal Utility District No. 89 for the purpose of sharing the cost of constructing and operating the Montgomery County Municipal Utility District No. 89 Water Plant Facilities ("Water Plant No. 1"). The contract is for a period of forty years.

Montgomery County Municipal Utility District No. 89 is the operator of Water Plant No. 1 and holds title for the benefit of the participants. Construction costs of Water Plant No. 1 are funded by the contribution of funds from each participating district. Water Plant No. 1 issues no debt. At April 30, 2018, the District's 56% ownership of the capacity in Water Plant No. 1 is recorded as a capital asset of the District.

#### Water Plant No. 2

On October 7, 2004 as amended August 15, 2008, September 19, 2011, December 6, 2012 and June 14, 2018, the District entered into an agreement with Montgomery County Municipal Utility District No. 88 and Montgomery County Municipal Utility District No. 89 for the purpose of constructing and operating Montgomery County Municipal Utility District No. 89 Water Plant Facilities ("Water Plant No. 2"). The contract is for a period of forty years.

Montgomery County Municipal Utility District No. 89 is the operator of Water Plant No. 2 and holds title for the benefit of the participants. Construction costs of Water Plant No. 2 are funded by the contribution of funds from each participating district. Water Plant No. 2 issues no debt.

Monthly operating costs of the joint water facilities are to be shared based on capacity acquired. During the fiscal year ended April 30, 2018, the District accrued \$59,533 for operating expenditures under the terms of the agreement. At April 30, 2018, the District's share of the Plant's operating reserve was \$41,800.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 10: GROUNDWATER CONSERVATION DISTRICT**

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77<sup>th</sup> Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an appointed nine member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of April 30, 2018, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well.

The San Jacinto River Authority (SJRA) is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of a series of acts compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution, whose area comprises all of the territory within the watershed of the San Jacinto River and its tributaries, except that portion of the watershed lying within the boundaries of Harris County. Such area consists of all of Montgomery County and parts of Waller, Grimes, Walker, San Jacinto, Liberty, and Fort Bend counties.

The LSGCD established a regulatory target in its District Regulatory Plan (DRP) Phase I to reduce groundwater withdrawals from the aquifer in Montgomery County to 64,000 acre-feet per year by January 2018. The LSGCD District Regulatory Plan (DRP) Phase II (A) required large volume groundwater users (LVGU) to submit a Water Resource Assessment Plan (WRAP), which included identification of new water supply sources to meet projected water demands by March of 2009. SJRA prepared and submitted a joint plan on behalf of 201 large volume groundwater users to reduce groundwater withdrawal and encourage the conjunctive use of surface water with ground water supplies to meet the LSGCD regulations. In November 2009, the LSGCD adopted final regulations that require certain groundwater users to prepare and submit a Groundwater Reduction Plan by April 1, 2010, outlining how the user intends to meet a 2018 deadline for conversion to surface water supplies. The SJRA responded to this regulatory requirement with the development of a long-term countywide approach that will provide a compliance solution for all users in the county who choose to join. Any large volume groundwater user in the county may join the SJRA's Joint Groundwater Reduction Plan (GRP) by executing a GRP Contract and paying the required monthly GRP Pumpage Fee. The District has executed a GRP Contract with the SJRA. The GRP Pumpage Fee as of April 30, 2018 is \$2.64 per thousand gallons of groundwater pumped by the participating entity and is billed monthly. It is anticipated that this fee will increase each year as costs are incurred for design and construction of the necessary infrastructure to deliver surface water.

The District's combined well regulatory water use fees and GRP pumpage fees payable to the LSGCD and SJRA, for the fiscal year ended April 30, 2018, were \$723,292. The District billed its customers \$851,162 during the fiscal year to pay for the fees charged by the LSGCD and SJRA.

The District cannot predict the amount or level of fees and charges which may be due the Authorities for future years, but anticipates that it will pass such fees through to its customers.

**NOTE 11: DIGESTER CAPACITY LEASE**

On May 10, 2010, the District and AUC Group, L.P. entered into an agreement for the lease of a 100,000 gallon capacity digester. The cost of the lease was \$2,975 per month. The term of the lease is 30 months from the effective date, after which the District can extend the lease for successive ninety day periods. The effective date of the lease was June 1, 2010. Beginning in December 2012, the District opted to extend the lease for ninety day periods at a cost of \$2,400 per month. The District terminated the lease effective May, 31, 2017. Lease expenditures during the fiscal year ended April 30, 2018, were \$2,975.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 12: STRATEGIC PARTNERSHIP AGREEMENT**

On December 19, 2011, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement") (as Amended and Restated effective November 22, 2013). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$521,021 from the City for the fiscal year ended April 30, 2018.

SPRING CREEK UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 1,150,000	\$ 1,150,000	\$ 1,443,661	\$ 293,661
Water service	1,264,000	1,264,000	912,620	(351,380)
Sewer service	1,400,000	1,400,000	1,483,775	83,775
Surface water fees	821,000	821,000	851,162	30,162
Penalty	76,000	76,000	77,196	1,196
Sales and Use Taxes	0	0	521,021	521,021
Tap connection and sewer inspection fees	130,000	130,000	455,635	325,635
Interest on deposits and investments	28,000	28,000	50,228	22,228
Other revenues	24,912	24,912	143,583	118,671
<b>TOTAL REVENUES</b>	<b>4,893,912</b>	<b>4,893,912</b>	<b>5,938,881</b>	<b>1,044,969</b>
<b>EXPENDITURES</b>				
Service operations:				
Purchased services	269,891	269,891	213,267	(56,624)
Professional fees	469,950	469,950	265,869	(204,081)
Contracted services	248,300	248,300	271,911	23,611
Utilities	200,000	200,000	182,308	(17,692)
Surface water pumpage fees	828,000	828,000	723,292	(104,708)
Repairs and maintenance	915,066	915,066	775,912	(139,154)
Other operating expenditures	205,400	205,400	141,326	(64,074)
Security service	408,000	408,000	274,895	(133,105)
Garbage disposal	638,018	638,018	617,215	(20,803)
Administrative expenditures	186,180	186,180	259,749	73,569
Capital outlay	80,000	80,000	881,973	801,973
<b>TOTAL EXPENDITURES</b>	<b>4,448,805</b>	<b>4,448,805</b>	<b>4,607,717</b>	<b>158,912</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>445,107</b>	<b>445,107</b>	<b>1,331,164</b>	<b>886,057</b>
<b>OTHER FINANCING SOURCES</b>				
Transfer to other fund	0	0	(700,908)	(700,908)
<b>EXCESS SOURCES (USES)</b>	<b>445,107</b>	<b>445,107</b>	<b>630,256</b>	<b>185,149</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>8,365,480</b>	<b>8,365,480</b>	<b>8,365,480</b>	<b>0</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 8,810,587</b>	<b>\$ 8,810,587</b>	<b>\$ 8,995,736</b>	<b>\$ 185,149</b>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

SPRING CREEK UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From participants in joint venture:				
Spring Creek Utility District	\$ 177,462	\$ 177,462	\$ 157,506	\$ (19,956)
Montgomery County Municipal Utility District No. 88	190,418	190,418	168,784	(21,634)
Montgomery County Municipal Utility District No. 89	257,752	257,752	229,868	(27,884)
Interest on deposits	<u>0</u>	<u>0</u>	<u>114</u>	<u>114</u>
<b>TOTAL REVENUES</b>	<u>625,632</u>	<u>625,632</u>	<u>556,272</u>	<u>(69,360)</u>
<b>EXPENDITURES</b>				
Service operations:				
Professional fees	38,200	38,200	33,361	(4,839)
Contracted services	12,900	12,900	12,301	(599)
Utilities	50,532	50,532	55,885	5,353
Repairs and maintenance	519,712	519,712	450,578	(69,134)
Administrative expenditures	4,288	4,288	4,147	(141)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>625,632</u>	<u>625,632</u>	<u>556,272</u>	<u>(69,360)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

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

SPRING CREEK UTILITY DISTRICT  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
APRIL 30, 2018

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

SPRING CREEK UTILITY DISTRICT  
SCHEDULE OF SERVICES AND RATES  
APRIL 30, 2018

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 12.50	6,000	N	\$ 1.50	6,001 to 13,000
				1.75	13,001 to 20,000
				5.00	Over 20,001
WASTEWATER:	\$ 34.00	10,000	N	\$ 1.25	Over 10,000

SURCHARGE: \$0.1155 per 1,000 gallons of water used. -- LSGCD regulatory water use fee.  
 \$3.168 per 1,000 gallons of water used. -- SJRA GRP fee.  
 \$0.50 % of monthly billing -- TCEQ assessment fees.

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$18.50 Wastewater: \$34.00 Surcharge: \$33.10

SPRING CREEK UTILITY DISTRICT  
SCHEDULE OF SERVICES AND RATES (Continued)  
APRIL 30, 2018

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	0	0	1.0	0
< or = 3/4"	3,469	3,429	1.0	3,429
1"	39	39	2.5	98
1-1/2"	4	4	5.0	20
2"	43	43	8.0	344
3"	3	3	15.0	45
4"	0	0	25.0	0
6"	2	2	50.0	100
8"	1	1	80.0	80
10"	0	0	115.0	0
Total Water	<u>3,561</u>	<u>3,521</u>		<u>4,116</u>
Total Wastewater	<u>3,501</u>	<u>3,461</u>	1.0	<u>3,461</u>

\*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 298,032  
 Gallons billed to customers (unaudited): 275,908

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 93%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

SPRING CREEK UTILITY DISTRICT

EXPENDITURES

FOR THE YEAR ENDED APRIL 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CURRENT</b>					
Purchased services:					
Water services	\$ 59,533	\$	\$	\$	\$ 59,533
Stormwater facilities	153,734				153,734
	<u>213,267</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>213,267</u>
Professional fees:					
Auditing	11,350	1,200			12,550
Legal	109,380	3,212	33,813		146,405
Engineering	145,139	28,949			174,088
	<u>265,869</u>	<u>33,361</u>	<u>33,813</u>	<u>0</u>	<u>333,043</u>
Contracted services:					
Bookkeeping	29,888	3,938			33,826
Operation and billing	162,523	8,363			170,886
Construction inspector	79,500				79,500
Tax assessor-collector			37,981		37,981
Central appraisal district			44,943		44,943
	<u>271,911</u>	<u>12,301</u>	<u>82,924</u>	<u>0</u>	<u>367,136</u>
Utilities	<u>182,308</u>	<u>55,885</u>	<u>0</u>	<u>0</u>	<u>238,193</u>
Surface water pumpage fees	<u>723,292</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>723,292</u>
Repairs and maintenance	<u>775,912</u>	<u>450,578</u>	<u>0</u>	<u>0</u>	<u>1,226,490</u>
Other operating expenditures:					
Sludge hauling	43,042				43,042
Chemicals	32,404				32,404
Laboratory costs	26,405				26,405
Sewer inspection costs	11,583				11,583
Reconnection costs	13,210				13,210
Regulatory assessment	11,707				11,707
Digester lease	2,975				2,975
	<u>141,326</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>141,326</u>
Security service	<u>274,895</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>274,895</u>
Garbage disposal	<u>617,215</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>617,215</u>
Administrative expenditures:					
Director's fees	19,200				19,200
Office supplies and postage	86,366	763			87,129
Insurance	38,108	3,384	50		41,542
Permit fees	44,916				44,916
Other	71,159		14,573		85,732
	<u>259,749</u>	<u>4,147</u>	<u>14,623</u>	<u>0</u>	<u>278,519</u>

See accompanying independent auditor's report.



SPRING CREEK UTILITY DISTRICT  
EXPENDITURES (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CAPITAL OUTLAY</b>					
Authorized expenditures	\$ 681,283	\$	\$	\$ 6,179,511	\$ 6,860,794
Tap connection costs	200,690				200,690
	<u>881,973</u>	<u>0</u>	<u>0</u>	<u>6,179,511</u>	<u>7,061,484</u>
<b>DEBT SERVICE</b>					
Principal retirement	<u>0</u>	<u>0</u>	<u>1,815,000</u>	<u>0</u>	<u>1,815,000</u>
BAN issuance expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>100,254</u>	<u>100,254</u>
Interest and fees:					
Interest			1,776,221		1,776,221
Paying agent fees			5,500		5,500
	<u>0</u>	<u>0</u>	<u>1,781,721</u>	<u>0</u>	<u>1,781,721</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 4,607,717</u>	<u>\$ 556,272</u>	<u>\$ 3,708,635</u>	<u>\$ 6,313,578</u>	<u>\$ 15,186,202</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED APRIL 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash receipts from revenues	\$ 4,433,123	\$ 543,737	\$ 3,987,132	\$ 19,087	\$ 8,983,079
Maintenance tax receipts			1,443,661		1,443,661
Transfer of maintenance taxes	1,446,843				1,446,843
Reimbursement from other funds	1,221,603				1,221,603
Proceeds from sale of bonds			5,929,891		5,929,891
Transfer from other fund				700,908	700,908
Bond anticipation note proceeds				4,265,000	4,265,000
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>7,101,569</u>	<u>543,737</u>	<u>11,360,684</u>	<u>4,984,995</u>	<u>23,990,985</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash disbursements for:					
Current expenditures	3,906,420	562,980	107,468	35,956	4,612,824
Capital outlay	881,973			3,894,152	4,776,125
Debt service			3,596,721	100,254	3,696,975
Reimbursement to other fund				1,221,603	1,221,603
Landowner construction	295,041				295,041
Decrease in customer and builder deposits	35,975				35,975
Payment to refunding escrow agent			5,720,693		5,720,693
Refunding bond issuance expenditures			209,198		209,198
Transfer to other fund	700,908				700,908
Transfer of maintenance taxes			1,446,843		1,446,843
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>5,820,317</u>	<u>562,980</u>	<u>11,080,923</u>	<u>5,251,965</u>	<u>22,716,185</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	1,281,252	(19,243)	279,761	(266,970)	1,274,800
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>8,903,604</u>	<u>53,032</u>	<u>6,227,073</u>	<u>4,532,791</u>	<u>19,716,500</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$ 10,184,856</u>	<u>\$ 33,789</u>	<u>\$ 6,506,834</u>	<u>\$ 4,265,821</u>	<u>\$ 20,991,300</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICTSCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTSAPRIL 30, 2018

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 9009002206	1.25%	7/10/18	\$ 234,238	\$ 2,358
No. 6750866385	1.27%	7/19/18	237,454	2,355
No. 6000013257	1.30%	1/09/19	<u>237,627</u>	<u>940</u>
			<u>\$ 709,319</u>	<u>\$ 5,653</u>
TexPool				
No. 2568500008	Market	On demand	<u>\$ 2,873,487</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 3300035363	0.90%	5/10/18	\$ 233,336	\$ 2,043
No. 12783	0.90%	5/13/18	236,469	2,052
No. 3116002704	1.25%	11/06/18	233,973	1,402
No. 1002316164	1.00%	11/07/18	<u>235,074</u>	<u>1,121</u>
			<u>\$ 938,852</u>	<u>\$ 6,618</u>
TexPool				
No. 2568500004	Market	On demand	<u>\$ 533,328</u>	<u>\$ 0</u>
CAPITAL PROJECTS FUND				
TexPool				
No. 2568500011	Market	On demand	<u>\$ 2,060,333</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 7,115,319</u>	<u>\$ 12,271</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 55,379	\$ 149,728
Additions and corrections to prior year taxes	<u>(5,682)</u>	<u>(15,363)</u>
Adjusted receivable, beginning of year	49,697	134,365
2017 ADJUSTED TAX ROLL	<u>1,455,576</u>	<u>3,935,446</u>
Total to be accounted for	1,505,273	4,069,811
Tax collections: Current tax year	(1,414,302)	(3,823,853)
Prior tax years	<u>(29,359)</u>	<u>(79,378)</u>
RECEIVABLE, END OF YEAR	<u>\$ 61,612</u>	<u>\$ 166,580</u>
RECEIVABLE, BY TAX YEAR		
2009	\$ 97	\$ 264
2010	98	264
2011	201	542
2012	489	1,322
2013	935	2,528
2014	2,759	7,460
2015	4,956	13,399
2016	10,803	29,208
2017	<u>41,274</u>	<u>111,593</u>
RECEIVABLE, END OF YEAR	<u>\$ 61,612</u>	<u>\$ 166,580</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
TAXES LEVIED AND RECEIVABLE (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 104,105,670	\$ 93,587,550	\$ 82,816,620	\$ 77,268,490
Improvements	505,726,456	454,330,908	414,595,850	352,565,360
Personal property	20,013,487	8,536,154	6,921,654	6,118,766
Less exemptions	<u>(90,743,485)</u>	<u>(69,886,813)</u>	<u>(59,805,880)</u>	<u>(42,274,455)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 539,102,128</u>	 <u>\$ 486,567,799</u>	 <u>\$ 444,528,244</u>	 <u>\$ 393,678,161</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.73000	\$ 0.73000	\$ 0.73000	\$ 0.73000
Maintenance tax rates*	<u>0.27000</u>	<u>0.27000</u>	<u>0.27000</u>	<u>0.27000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 1.00000</u>	 <u>\$ 1.00000</u>	 <u>\$ 1.00000</u>	 <u>\$ 1.00000</u>
 TAX ROLLS	 <u>\$ 5,391,022</u>	 <u>\$ 4,865,678</u>	 <u>\$ 4,445,282</u>	 <u>\$ 3,936,782</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>97.2 %</u>	 <u>99.2 %</u>	 <u>99.6 %</u>	 <u>99.7 %</u>

\*Maximum tax rate approved by voters on April 3, 1982: \$0.40

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS  
APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2009		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 250,000	\$ 28,455	\$ 278,455
2020	260,000	16,185	276,185
2021	<u>260,000</u>	<u>5,395</u>	<u>265,395</u>
TOTALS	<u>\$ 770,000</u>	<u>\$ 50,035</u>	<u>\$ 820,035</u>

Due During Fiscal Years Ending April 30	Series 2010		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 100,000	\$ 324,813	\$ 424,813
2020	125,000	319,156	444,156
2021	150,000	313,312	463,312
2022	150,000	306,938	456,938
2023	150,000	300,562	450,562
2024	375,000	289,406	664,406
2025	400,000	272,938	672,938
2026	400,000	255,938	655,938
2027	450,000	237,875	687,875
2028	450,000	218,750	668,750
2029	475,000	199,094	674,094
2030	500,000	177,750	677,750
2031	500,000	155,250	655,250
2032	800,000	126,000	926,000
2033	800,000	90,000	890,000
2034	800,000	54,000	854,000
2035	<u>800,000</u>	<u>18,000</u>	<u>818,000</u>
TOTALS	<u>\$ 7,425,000</u>	<u>\$ 3,659,782</u>	<u>\$ 11,084,782</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICTLONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2013		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 25,000	\$ 334,968	\$ 359,968
2020	25,000	333,718	358,718
2021	25,000	332,469	357,469
2022	25,000	331,219	356,219
2023	25,000	330,220	355,220
2024	25,000	329,469	354,469
2025	25,000	328,718	353,718
2026	25,000	327,968	352,968
2027	25,000	327,203	352,203
2028	25,000	326,421	351,421
2029	25,000	325,640	350,640
2030	25,000	324,859	349,859
2031	25,000	324,078	349,078
2032	100,000	322,063	422,063
2033	100,000	318,813	418,813
2034	200,000	313,938	513,938
2035	1,000,000	294,438	1,294,438
2036	1,350,000	254,563	1,604,563
2037	1,400,000	206,438	1,606,438
2038	1,450,000	155,656	1,605,656
2039	1,500,000	102,187	1,602,187
2040	1,500,000	37,500	1,537,500
TOTALS	<u>\$ 8,925,000</u>	<u>\$ 6,282,546</u>	<u>\$ 15,207,546</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2014		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 765,000	\$ 153,806	\$ 918,806
2020	770,000	138,456	908,456
2021	795,000	118,831	913,831
2022	805,000	94,831	899,831
2023	825,000	70,381	895,381
2024	595,000	49,081	644,081
2025	635,000	30,234	665,234
2026	625,000	10,156	635,156
TOTALS	<u>\$ 5,815,000</u>	<u>\$ 665,776</u>	<u>\$ 6,480,776</u>

See accompanying independent auditor's report.



SPRING CREEK UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2015		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 200,000	\$ 304,312	\$ 504,312
2020	200,000	299,312	499,312
2021	200,000	294,312	494,312
2022	200,000	289,312	489,312
2023	200,000	284,312	484,312
2024	200,000	279,312	479,312
2025	200,000	274,062	474,062
2026	200,000	268,312	468,312
2027	150,000	262,969	412,969
2028	200,000	257,500	457,500
2029	200,000	251,125	451,125
2030	200,000	244,626	444,626
2031	225,000	237,578	462,578
2032	250,000	229,563	479,563
2033	350,000	219,438	569,438
2034	550,000	203,907	753,907
2035	575,000	184,219	759,219
2036	925,000	157,391	1,082,391
2037	925,000	123,282	1,048,282
2038	925,000	88,594	1,013,594
2039	950,000	53,438	1,003,438
2040	950,000	17,813	967,813
TOTALS	<u>\$ 8,975,000</u>	<u>\$ 4,824,689</u>	<u>\$ 13,799,689</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2016		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 70,000	\$ 193,617	\$ 263,617
2020	70,000	192,673	262,673
2021	65,000	191,550	256,550
2022	65,000	190,250	255,250
2023	65,000	188,950	253,950
2024	85,000	187,450	272,450
2025	85,000	184,900	269,900
2026	105,000	181,100	286,100
2027	755,000	163,900	918,900
2028	755,000	133,700	888,700
2029	750,000	103,600	853,600
2030	745,000	73,700	818,700
2031	745,000	43,900	788,900
2032	365,000	21,700	386,700
2033	360,000	7,200	367,200
TOTALS	<u>\$ 5,085,000</u>	<u>\$ 2,058,190</u>	<u>\$ 7,143,190</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2017		
	Principal Due October 1	Interest Due October 1, April 1	Total
2019	\$ 325,000	\$ 243,062	\$ 568,062
2020	325,000	233,313	558,313
2021	325,000	223,562	548,562
2022	325,000	215,438	540,438
2023	325,000	208,937	533,937
2024	325,000	202,438	527,438
2025	325,000	195,531	520,531
2026	325,000	187,812	512,812
2027	325,000	179,281	504,281
2028	325,000	169,938	494,938
2029	325,000	160,187	485,187
2030	325,000	150,438	475,438
2031	325,000	140,484	465,484
2032	325,000	130,125	455,125
2033	325,000	119,359	444,359
2034	300,000	108,625	408,625
2035	325,000	97,687	422,687
2036	350,000	85,875	435,875
2037	350,000	73,406	423,406
2038	350,000	60,719	410,719
2039	350,000	47,813	397,813
2040	350,000	34,688	384,688
2041	375,000	21,094	396,094
2042	375,000	7,031	382,031
TOTALS	<u>\$ 8,000,000</u>	<u>\$ 3,296,843</u>	<u>\$ 11,296,843</u>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
APRIL 30, 2018

Due During Fiscal Years Ending April 30	Series 2017A		
	Principal Due October 1	Interest Due October 1, April 1*	Total
2019	\$ 85,000	\$ 151,769	\$ 236,769
2020	85,000	149,219	234,219
2021	85,000	146,744	231,744
2022	5,000	145,544	150,544
2023	5,000	145,544	150,544
2024	360,000	141,944	501,944
2025	350,000	134,406	484,406
2026	370,000	125,844	495,844
2027	385,000	116,406	501,406
2028	405,000	106,025	511,025
2029	420,000	94,156	514,156
2030	460,000	80,956	540,956
2031	505,000	66,481	571,481
2032	540,000	50,131	590,131
2033	530,000	32,744	562,744
2034	715,000	12,066	727,066
<b>TOTALS</b>	<b><u>\$ 5,305,000</u></b>	<b><u>\$ 1,699,979</u></b>	<b><u>\$ 7,004,979</u></b>

\*Interest on the Premium Compound Interest Bonds which mature October 1, 2020, October 1, 2021 and October 1, 2022 will be paid upon redemption.

SPRING CREEK UTILITY DISTRICT

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

APRIL 30, 2018

Annual Requirements for All Series			
Due During Fiscal Years Ending April 30	Total Principal Due	Total Interest Due*	Total
2019	\$ 1,820,000	\$ 1,734,802	\$ 3,554,802
2020	1,860,000	1,682,032	3,542,032
2021	1,905,000	1,626,175	3,531,175
2022	1,575,000	1,573,532	3,148,532
2023	1,595,000	1,528,906	3,123,906
2024	1,965,000	1,479,100	3,444,100
2025	2,020,000	1,420,789	3,440,789
2026	2,050,000	1,357,130	3,407,130
2027	2,090,000	1,287,634	3,377,634
2028	2,160,000	1,212,334	3,372,334
2029	2,195,000	1,133,802	3,328,802
2030	2,255,000	1,052,329	3,307,329
2031	2,325,000	967,771	3,292,771
2032	2,380,000	879,582	3,259,582
2033	2,465,000	787,554	3,252,554
2034	2,565,000	692,536	3,257,536
2035	2,700,000	594,344	3,294,344
2036	2,625,000	497,829	3,122,829
2037	2,675,000	403,126	3,078,126
2038	2,725,000	304,969	3,029,969
2039	2,800,000	203,438	3,003,438
2040	2,800,000	90,001	2,890,001
2041	375,000	21,094	396,094
2042	375,000	7,031	382,031
	<u>\$ 50,300,000</u>	<u>\$ 22,537,840</u>	<u>\$ 72,837,840</u>
TOTALS			

\*Interest on the Premium Compound Interest Bonds which mature October 1, 2020, October 1, 2021 and October 1, 2022 will be paid upon redemption.

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
Bond Series:	2009	2010	2013	2014
Interest Rate:	4.15% to 5.50%	4.25% to 6.00%	3.00% to 5.00%	2.00% to 3.25%
Dates Interest Payable:	October 1/ April 1	October 1/ April 1	October 1/ April 1	October 1/ April 1
Maturity Dates:	October 1, 2018/2020	October 1, 2018/2034	October 1, 2018/2039	October 1, 2018/2025
Bonds Outstanding at Beginning of Current Year	\$ 6,410,000	\$ 7,525,000	\$ 8,950,000	\$ 6,570,000
Less Retirements	<u>(5,640,000)</u>	<u>(100,000)</u>	<u>(25,000)</u>	<u>(755,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 770,000</u>	<u>\$ 7,425,000</u>	<u>\$ 8,925,000</u>	<u>\$ 5,815,000</u>
Current Year Interest Paid:	<u>\$ 42,381</u>	<u>\$ 330,812</u>	<u>\$ 336,219</u>	<u>\$ 169,006</u>

Bond Descriptions and Original Amount of Issue

- (1) Spring Creek Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2009 (\$7,620,000)
- (2) Spring Creek Utility District Unlimited Tax Bonds, Series 2010 (\$8,025,000)
- (3) Spring Creek Utility District Unlimited Tax Bonds, Series 2013 (\$9,650,000)
- (4) Spring Creek Utility District Unlimited Tax Refunding Bonds, Series 2014 (\$7,735,000)

Paying Agent/Registrar

- (1) (2) Wells Fargo Bank, Texas, N.A., Houston, Texas
- (3) (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>
Bond Series:	2015	2016	2017
Interest Rate:	2.50% to 3.75%	1.35% to 4.00%	2.00% to 3.75%
Dates Interest Payable:	October 1/ April 1	October 1/ April 1	October 1/ April 1
Maturity Dates:	October 1, 2018/2039	October 1, 2018/2032	October 1, 2018/2041
Bonds Outstanding at Beginning of Current Year	\$ 9,175,000	\$ 5,160,000	\$ 8,325,000
Less Retirements	<u>(200,000)</u>	<u>(75,000)</u>	<u>(325,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 8,975,000</u>	<u>\$ 5,085,000</u>	<u>\$ 8,000,000</u>
Current Year Interest Paid:	<u>\$ 309,312</u>	<u>\$ 194,596</u>	<u>\$ 252,813</u>

Bond Descriptions and Original Amount of Issue

(5) Spring Creek Utility District Unlimited Tax Bonds, Series 2015 (\$9,375,000)

(6) Spring Creek Utility District Unlimited Tax Refunding Bonds, Series 2016 (\$5,305,000)

(7) Spring Creek Utility District Unlimited Tax Bonds, Series 2017 (\$8,325,000)

Paying Agent/Registrar

(5) (6) (7) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

SPRING CREEK UTILITY DISTRICT  
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)  
FOR THE YEAR ENDED APRIL 30, 2018

	<u>(8)</u>	<u>Totals</u>
Bond Series:	2017A	
Interest Rate:	2.00% to 3.375%	
Dates Interest Payable:	October 1/ April 1	
Maturity Dates:	October 1, 2018/2033	
Bonds Outstanding at Beginning of Current Year	\$ 0	\$ 52,115,000
Add Bonds Sold	5,400,000	5,400,000
Less Retirements	<u>(95,000)</u>	<u>(7,215,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 5,305,000</u>	<u>\$ 50,300,000</u>
Current Year Interest Paid:	<u>\$ 141,082</u>	<u>\$ 1,776,221</u>

Bond Descriptions and Original Amount of Issue

(8) Spring Creek Utility District Unlimited Tax Refunding Bonds, Series 2017A (\$5,400,000)

Paying Agent/Registrar

(8) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 77,000,000	\$ 0	\$ 4,000,000
Amount Issued:	59,685,000		3,949,308
Remaining to be Issued:	17,315,000		50,692

Net Debt Service Fund deposits and investments balances as of April 30, 2018: \$6,504,003  
Average annual debt service payment for remaining term of all debt: 3,034,910

See accompanying independent auditor's report.



SPRING CREEK UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND  
FOR YEARS ENDED APRIL 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>REVENUES</b>										
Property taxes	\$ 1,443,661	\$ 1,323,345	\$ 1,230,746	\$ 988,014	\$ 945,501	24.3 %	22.3 %	24.3 %	24.5 %	23.5 %
Water service	912,620	1,085,817	751,048	727,367	766,527	15.4	18.4	14.8	18.1	19.1
Sewer service	1,483,775	1,446,580	1,378,728	1,350,834	1,281,302	25.0	24.4	27.2	33.4	31.7
Surface water fees	851,162	837,385	706,823	623,353	511,776	14.3	14.2	13.9	15.5	12.7
Security contributions	0	0	0	59,065	59,326	0.0	0.0	0.0	1.5	1.5
Penalty	77,196	74,038	71,854	72,917	66,975	1.3	1.3	1.4	1.8	1.7
Sales and Use Taxes	521,021	0	0	0	0	8.8	0.0	0.0	0.0	0.0
Tap connection and sewer inspection fees	455,635	938,850	765,850	79,300	267,525	7.7	15.9	15.1	2.0	6.7
Interest on deposits and temporary investments	50,228	28,369	18,556	10,765	12,592	0.8	0.5	0.4	0.3	0.3
Other	143,583	175,141	148,416	116,494	111,163	2.4	3.0	2.9	2.9	2.8
<b>TOTAL REVENUES</b>	<b><u>5,938,881</u></b>	<b><u>5,909,525</u></b>	<b><u>5,072,021</u></b>	<b><u>4,028,109</u></b>	<b><u>4,022,687</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b>EXPENDITURES</b>										
Current:										
Purchased services	213,267	203,768	142,512	109,136	120,609	3.6	3.4	2.8	2.7	3.0
Professional fees	265,869	279,711	296,006	253,805	379,035	4.5	4.7	5.8	6.3	9.4
Contracted services	271,911	281,038	267,414	275,089	249,281	4.6	4.8	5.3	6.8	6.2
Utilities	182,308	176,933	157,283	163,412	152,192	3.1	3.0	3.1	4.1	3.8
Surface water pumpage fees	723,292	790,224	671,965	601,547	444,862	12.1	13.4	13.3	14.8	11.1
Repairs and maintenance	775,912	805,346	747,775	557,591	578,178	13.0	13.6	14.8	13.8	14.4
Other operating expenditures	141,326	226,799	158,413	123,203	131,573	2.4	3.8	3.1	3.1	3.3
Security service	274,895	232,601	47,637	58,435	64,420	4.6	3.9	0.9	1.5	1.6
Garbage disposal	617,215	601,896	618,700	598,940	566,782	10.4	10.2	12.2	14.9	14.1
Administrative expenditures	259,749	192,939	157,699	151,950	169,050	4.4	3.3	3.1	3.8	4.2
Capital outlay	881,973	962,172	789,967	709,624	1,272,920	14.9	16.3	15.6	17.6	31.5
<b>TOTAL EXPENDITURES</b>	<b><u>4,607,717</u></b>	<b><u>4,753,427</u></b>	<b><u>4,055,371</u></b>	<b><u>3,602,732</u></b>	<b><u>4,128,902</u></b>	<b><u>77.6</u></b>	<b><u>80.4</u></b>	<b><u>80.0</u></b>	<b><u>89.4</u></b>	<b><u>102.6</u></b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b><u>\$ 1,331,164</u></b>	<b><u>\$ 1,156,098</u></b>	<b><u>\$ 1,016,650</u></b>	<b><u>\$ 425,377</u></b>	<b><u>\$ (106,215)</u></b>	<b><u>22.4 %</u></b>	<b><u>19.6 %</u></b>	<b><u>20.0 %</u></b>	<b><u>10.6 %</u></b>	<b><u>(2.6) %</u></b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b><u>3,521</u></b>	<b><u>3,471</u></b>	<b><u>3,419</u></b>	<b><u>3,367</u></b>	<b><u>3,302</u></b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b><u>3,461</u></b>	<b><u>3,423</u></b>	<b><u>3,377</u></b>	<b><u>3,341</u></b>	<b><u>3,278</u></b>					

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND  
FOR YEARS ENDED APRIL 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
<b>REVENUES</b>										
Property taxes	\$ 3,903,231	\$ 3,577,934	\$ 3,327,573	\$ 2,671,298	\$ 2,556,341	97.9 %	97.5 %	96.6 %	97.8 %	98.1 %
Penalty and interest	44,531	64,114	87,628	53,205	23,752	1.1	1.7	2.5	1.9	0.9
Accrued interest on bonds received at date of sale	1,291	13,600	21,121	0	16,100	0.1	0.4	0.6	0.0	0.6
Interest on deposits and investments	39,210	14,546	11,342	8,559	10,558	0.9	0.4	0.3	0.3	0.4
<b>TOTAL REVENUES</b>	<b><u>3,988,263</u></b>	<b><u>3,670,194</u></b>	<b><u>3,447,664</u></b>	<b><u>2,733,062</u></b>	<b><u>2,606,751</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b>EXPENDITURES</b>										
Current:										
Professional fees	14,367	20,796	31,310	3,192	0	0.4	0.6	0.9	0.1	0.0
Contracted services	82,924	77,532	71,967	51,247	31,155	2.1	2.1	2.1	1.9	1.2
Other expenditures	14,623	13,424	23,592	16,897	4,961	0.4	0.4	0.7	0.6	0.2
Debt service:										
Principal retirement	1,815,000	1,445,000	1,140,000	1,685,000	970,000	45.4	39.4	33.1	61.6	37.2
Interest and fees	1,781,721	1,738,558	1,565,338	1,537,549	1,776,000	44.7	47.3	45.4	56.3	68.1
<b>TOTAL EXPENDITURES</b>	<b><u>3,708,635</u></b>	<b><u>3,295,310</u></b>	<b><u>2,832,207</u></b>	<b><u>3,293,885</u></b>	<b><u>2,782,116</u></b>	<b><u>93.0</u></b>	<b><u>89.8</u></b>	<b><u>82.2</u></b>	<b><u>120.5</u></b>	<b><u>106.7</u></b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b><u>\$ 279,628</u></b>	<b><u>\$ 374,884</u></b>	<b><u>\$ 615,457</u></b>	<b><u>\$ (560,823)</u></b>	<b><u>\$ (175,365)</u></b>	<b><u>7.0 %</u></b>	<b><u>10.2 %</u></b>	<b><u>17.8 %</u></b>	<b><u>(20.5) %</u></b>	<b><u>(6.7) %</u></b>

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSAPRIL 30, 2018

Complete District Mailing Address: Spring Creek Utility District  
c/o Roach & Mitchell, PLLC  
2800 Post Oak Blvd., Suite 4100  
Houston, Texas 77056

District Business Telephone No.: 832-390-2268

Submission date of the most recent District Registration Form: November 9, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
John Dale Healy 8156 S. Wadsworth Blvd., E-474 Littleton, Colorado 80128	Elected 5/07/16- 5/02/20	\$ 1,950	\$ 0	President
Brian Desilets 28718 Stapleford Street Spring, Texas 77386	Elected 5/07/16- 5/02/20	3,600	911	Vice President
Frederick Sunderman 3646 Fuller Bluff Spring, Texas 77386	Elected 5/10/14- 5/05/18	5,700	387	Secretary
Claude Humbert 29639 Legends Line Drive Spring, Texas 77386	Elected 5/10/14- 5/05/18	4,950	2,097	Assistant Sec./ Investment Officer
Mark Fusca 2811 Legends Knoll Drive Spring, Texas 77386	Elected 5/07/16- 5/02/20	3,000	700	Assistant Secretary

See accompanying independent auditor's report.

SPRING CREEK UTILITY DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

APRIL 30, 2018

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Roach & Mitchell, PLLC 2800 Post Oak Blvd., Suite 4100 Houston, Texas 77056	8/15/16	\$ 157,956 85,191 Bonds	Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	5/20/03	39,624 5,325 Bonds	Bookkeeper
Municipal Operations & Consulting, Inc. 312 Spring Hill Dr., Suite 100 Spring, Texas 77386	1/01/10	876,563	Operator
A&S Engineers, Inc. 10377 Stella Link Road Houston, Texas 77025	5/24/11	312,749	Engineer
ASB Construction Services, Inc. 7118 Durango Creek Drive Magnolia, Texas 77354	6/07/11	79,500	Construction Inspector
Triton Consulting Group 810 S. Mason Road, Suite 309 Katy, Texas 77450	7/21/18	41,010	Communications/ Technology
Mike Arterburn 11500 Northwest Freeway, Suite 465 Houston, Texas 77092	7/28/14	47,902 1,000 Bonds	Tax Assessor- Collector
Montgomery Central Appraisal District P.O. Box 2233 Conroe, Texas 77305	Legislative Action	44,943	Central Appraisal District
Hilltop Securities, Inc. 700 Milam Street, Suite 500 Houston, Texas 77002	8/25/90	99,982 Bonds	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1992	11,350 5,050 Bonds	Independent Auditor

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